

# newsfocus

YOUR COMPLETE FOCUS ON FINANCIAL CURRENT EVENTS

## 2011 FEDERAL BUDGET ANALYSIS TOUGH LOVE, OR JUST TOUGH?



End of Financial Year

Tax Planning Opportunities

Tax efficient strategies to discuss with your planner

Investment Review & Outlook

The latest market forecast

Tax effective ways to  
boost your super savings

before June 30

What you need to know

How to get ready  
for retirement

Don't leave things to chance

Global Growth Largely Intact.

Go International.

Questions the impact on global economic growth.

## Contents

END OF FINANCIAL YEAR TAX PLANNING OPPORTUNITIES	2
INVESTMENT REVIEW AND OUTLOOK	3
2011 FEDERAL BUDGET ANALYSIS TOUGH LOVE, OR JUST TOUGH?	5
TAX EFFECTIVE WAYS TO BOOST YOUR SUPER SAVINGS BEFORE JUNE 30	11
HOW TO GET READY FOR RETIREMENT	13
GLOBAL GROWTH LARGELY INTACT. GO INTERNATIONAL.	15

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**Black Rock**  
(Investment Review and Outlook)

**One Path**  
(Tax effective ways to boost your super savings before June 30)

**Colonial First State**  
(How to get ready for retirement)

**Morgan Stanley Smith Barney Research**  
(Global Growth Largely Intact. Go International.)

**IOOF Pursuit**  
(End of Financial Year Tax Planning Opportunities)

## Editorial



Welcome to the Winter 2011 edition of Newsfocus. The year is beginning to speed by quickly with the End of Financial Year just around the corner! And what an eventful year it has been so far, with the Royal Wedding providing a short term boost for the British Economy, which like the majority

of Europe has been caught in the aftermath of the GFC and the Australian dollar reaching 110.11 US cents in May, the highest since the currency was floated in December 1983!

End of financial year can be a stressful time for everyone and to help you get End of Financial Year ready, read article 'Tax effective ways to boost your super savings before June 30' and 'End of Financial Year Tax Planning Opportunities' and if you have any questions about preparing for the End of Financial Year, contact your Infocus financial adviser.

As you all know, the 2011 Federal Budget Analysis was released on Wednesday 11th of May and was described as a 'tough' budget, but was it? Read the 2011 Federal Budget Analysis on page 5 for a full overview.

Best of luck for a stress free End of Financial Year and as always, please contact me on Stephanie.Steinhardt@infocus.com.au if you have any questions or comments about articles in this edition.

Warm Regards,

Stephanie

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# End of Financial Year Tax Planning Opportunities

*Tax planning is an integral part of any financial plan. Now is the time to speak to your financial planner about how they can support strategies to help you effectively manage your taxation liabilities for the current year.*

This article will focus on some of the tax efficient opportunities to discuss with your financial planner.

## Pre-pay tax deductible expenses

Under the 12 month rule, you are able to bring forward claimable tax deductions if they are paid by 30 June. This strategy can be beneficial if you have surplus cash around the end of the financial year to pay these expenses. These can include:

- investment gearing interest costs but note it may not be available under the lending institutions loan terms; and
- other expenses such as income protection annual premiums or work related expenses.

## Avoid Medicare Levy surcharge

If you earn more than \$77,000 as a single or \$154,000 as a couple in the current financial year will be subject to a 1% medicare levy surcharge.

You must have private health insurance cover for the full financial year to be exempt from the surcharge. If you don't have private health insurance and you run a small business it may be best to consult with their accountants prior to 30 June to determine if you may be subject to the surcharge.

## Maximise tax deductions

It is important that you retain tax receipts as they may be tax deductible. Working with your financial planner and accountant should assist you in the process of maximising your available tax deductions.

Note: You should retain copies of your annual investment statements for fees that may be deductible (eg ongoing adviser fees). For more information on what adviser fees may be tax deductible please speak to your financial planner.

## Defer capital gain events or utilise capital losses

An opportunity may be available to restructure your investment (non-super) portfolio prior to 30 June. If you have unrealised capital losses it may provide an opportunity to realise the asset/s during this portfolio restructure.

For both investment and superannuation portfolios, if you have no capital losses it may be best to defer the realisation of an asset to the next financial year to defer the tax liability. It is also best to realise an asset after the asset has been held for at least 12 months to access the capital gain tax discount except for if the asset is held by a company.

## Personal concessional contributions

Personal concessional contributions can provide short term tax planning and long term retirement savings. Self employed or substantially self employed individuals can be eligible to claim a tax deduction for personal contributions made into superannuation.

Contributions should be made within the superannuation contribution caps of \$25,000 and \$50,000 for individuals over 50 years of age. You must provide your super fund with a section 290-170 tax deduction notice in accordance with the strict requirements (e.g. prior to commencing a pension) to ensure the tax deduction for your personal super contribution can be claimed within your personal income tax return.

Your financial adviser can assist you with your contribution planning and whether you are eligible to claim a tax deduction for your personal contributions.

## Utilise medical expense tax offset for out of pocket medical expenses over \$1,200

The net medical expense tax offset is available if you have incurred medical expenses less any refunds received from Medicare or a private health insurer. You are entitled to claim a tax offset of 20% for net medical expenses over \$2,000 for 2010/2011 financial year. There is no upper limit on the amount that they can claim.

The expenses incurred cover you and your dependants. Some of the expenses include doctors, prescribed pharmaceuticals, dentists, orthodontists or registered dental mechanics or medical aids prescribed by a doctor

If you have medical expenses coming up where you will be out of pocket it might be opportunistic to pay the expense this financial year.

It's important that you keep all receipts for prescribed pharmaceuticals and request itemised statements from medicare and their private health insurance provider to be eligible to claim this tax offset.

## Education tax refund

If you receive or are entitled to the family tax benefit (FTB) Part A you can claim a 50% refund every year for your children's education expenses up to:

- \$750 for each child undertaking primary studies (maximum refundable tax offset of \$375 per child, per year) and/or
- \$1,500 for each child undertaking secondary studies (maximum refundable tax offset of \$750 per child, per year)

Speak to your financial planner about the eligibility to the FTB Part A.

**Your relationship with your financial planner is vital in meeting your financial objectives. It may also support annual tax management strategies. To find out more information about these opportunities, please speak to your financial planner.**

# Investment Review and Outlook

## Robust recovery & strong corporates navigate inflation fears & Middle East turmoil

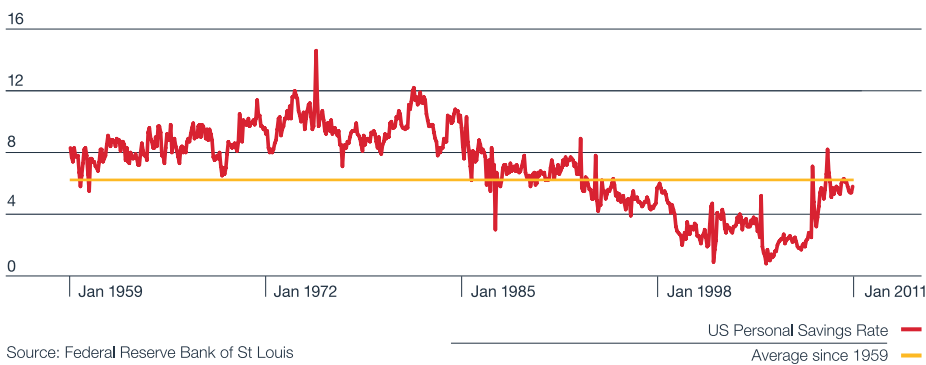
The global economic recovery continues to strengthen in 2011 as policy settings remain highly stimulative and it appears that corporates are finally becoming confident enough to spend and hire. Corporates certainly have the firepower to do so, with extremely strong balance sheets, profits and cash flow.

Of course, the flipside is government and household balance sheets remain very weak. The US government has effectively kicked the can down the road, in terms of any significant tightening of fiscal policy, by extending the Bush tax cuts and prolonging the extension of unemployment benefits. The day of reckoning for many heavily indebted governments is coming but appears unlikely to be imminent. Households have rebuilt their savings rate to around 6% which is probably enough to significantly repair their balance sheets over the next few years.

Against this backdrop, commodity prices are trending higher and the fundamentals do not point to any reason why this trend might be reversed any time soon, aside from the usual corrections that occur from time to time. Of course, high commodity prices will attract increased supply which will eventually sow the seeds for much lower prices down the track, but we think it is premature to worry about that just now. In particular, the Chinese economy supernova remains on track. It is true that the Authorities are tightening policy but the policy response looks very similar to the policy response to strong Chinese growth from 2003 to 2007. This was, of course, a period of sustained strength in commodity prices.

We would be more concerned if inflation was much higher but, at least at this stage, inflation remains reasonably contained

### US Personal Savings Rate



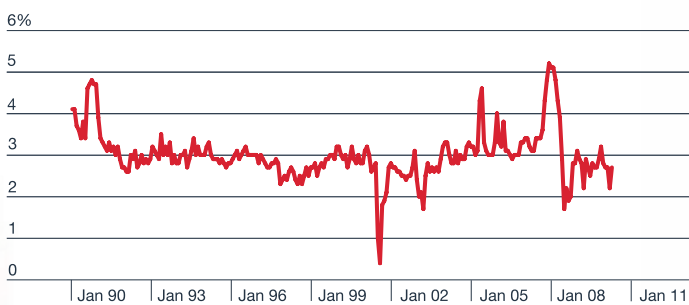
and there are some signs that inflation could fall over the balance of 2011. Moreover, in many commodity markets inventories are very lean and supply disruptions are adding to an already bullish story.

In the industrial commodities, it appears that the supply demand balance will remain quite tight. The GFC probably delayed the supply response for a couple of years but the supply response is gathering speed and will eventually overtake the extremely strong demand we are seeing from the emerging economies, and particularly China. But that is more likely a story for 2013 or 2014.

The angst about inflation among investors is palpable and with commodity prices moving inexorably higher, markets appear to have their 'smoking gun'. But the story is much more nuanced than that. Core inflation is expected to stay very low in much of the developed world, too low for the US Federal Reserve, as excess capacity remains enormous. The 'monetarists' are worried that the Fed is 'printing money' and inflation will inexorably follow. In fact, money supply growth is quite weak and we fail to see the mechanism where current policy settings are inexorably followed by much higher inflation. Indeed, the latest data shows the Fed's preferred measure of consumer inflation fell to a new post WWII low at 0.7%. This is not going according to the script written by the inflation fear mongers.

The breakdown in the inflation process is the result of the absence of second round effects flowing from the increase in commodity prices. Inflation expectations remain low and labour costs remain very subdued in part because income growth expectations among workers is conditioned to be very low as workers are more concerned about keeping their jobs.

**Inflation expectations still muted  
(University of Michigan Inflation Expectation)**



Source: Federal Reserve Bank of St Louis

In the developing world, the inflation fears are on much stronger footing. Economies are back to operating with very little if any spare capacity and policy settings are too easy as many emerging economies continue to import US monetary policy. Policy needs to be much tighter. These economies are slowly getting policy closer to where it needs to be. Policy is already being tightened in the major emerging economies and also in the major commodity producers.

The major developed economies with zero to 1% interest rates, namely, the US, Japan, Euro-area and the UK, are expected to only slowly move rates higher. The UK and Europe, where inflation has been higher, are expected to be first cabs off the rank, followed by the US some time next year and who knows when Japan might be in a position to tighten.

One development we are watching with great interest is the breakdown of correlations which have been very high ever since the Lehmans' failure. For much of the following two and a half years markets have been dominated by the 'risk on-risk off' trade. These correlations appear to be falling which is providing greater opportunities to build a diversified portfolio of thematics. In addition, volatility has fallen significantly allowing better risk management of positions through bought options.

Like last month we continue to see risks in Europe (peripheral debt crisis), China (hard landing fears) and US (unsustainable fiscal policy). Of course, the major addition to these risks over the past month is the revolution contagion in North Africa and potentially the Middle East. The contagion from Tunisia to Egypt to Libya and the unrest in Algeria, Yemen, Iran and Bahrain highlight the unpredictability of this region. The point is the revolution is spreading to some major oil producers and the Saudi regime must also be at some risk. An oil shock would, of course, be a devastating blow for the recovery.

**Outlook**

The robust recovery in global economic growth leads us to continue to favour long equities, short bonds, long emerging market FX and relative value positions exploiting the sharp differences in the economic cycle between the major developed economies and the rest of the world. The ongoing uncertainties about the revolutions and unrest in the Middle East and North Africa, as well as the European debt, crisis have tempered our enthusiasm for a more significant increase in risk for the time being.



# 2011 Federal Budget Analysis

## Tough love, or just tough?

On Wednesday, 11th of May, the Federal Treasurer, The Honourable My Wayne Swan MP, delivered the Federal Government's 2011 budget. Mr Swan's 4th budget has been advertised as a 'tough' budget, a budget that is needed to get Australia's books back in the black ... but was it?

Well ... not really. Many were expecting a bit more 'tough love' than what was actually delivered.

This report from the Infocus Research department outlines Infocus' response to certain announcements in the Federal Budget. The Budget focused on building Australia's future workforce whilst maintaining strict spending disciplines designed to return the Budget to surplus in 2012-13. There were a number of announcements that may impact upon your financial planning strategy, both positively and negatively, such as superannuation, taxation and other issues affecting employees and social security.

If you need more information, or want to discuss these changes, please contact your Infocus financial planner.



# Key Points on Super

## **Reduction in the minimum payment for account-based pensions**

The Government will phase out the minimum pension drawdown relief that has been provided over the last three income years. Minimum payment amounts for account-based, allocated and market linked (term allocated) pensions will be reduced by 25% for 2011-12 and will return to normal in 2012-13.

The Government previously provided pension drawdown relief in the 2008-09, 2009-10, 2010-11 income years by halving the minimum payment amounts.

### **Impact:**

The increase in minimum pension drawdown rates from 1 July 2012 may have the following effects:

- Age pensioners that are income tested may see their government pension entitlements decrease
- Those under the age of 60 may receive a higher taxable income and therefore pay more tax
- Those who have implemented a transition to retirement strategy may need to review their salary sacrifice arrangements to optimise cash flow and tax position

### **Comment:**

Account-based pension clients can still benefit from a 25% reduction in the minimum pension drawdown rate for the 2011/12 financial year. The fact that minimum pension rates will return to normal from 1 July 2013, does not alter the tax advantages associated with superannuation pension products.

## **Refund of excess concessional contributions**

The Government will provide eligible individuals with the option to have excess concessional contributions taken out of their superannuation fund and assessed as income at their marginal rate of tax, rather than incurring excess contributions tax.

The measure will apply where an individual has made excess concessional contributions of up to \$10,000 (not indexed) in a particular year and is only available for breaches in respect of the 2011-12 or later income years, and only for the first year, commencing from 2011-12, in which a breach occurs.

### **Impact:**

- Before utilising this option, those that fall into this scenario will need to consider their tax position to determine the impact of having the refunded excess contribution amount included as income

### **Comment:**

This will allow those who have inadvertently exceeded the concessional contributions cap for the first time the option to have these refunded and taxed at their potentially lower margin

tax rate rather than the 46.5% effective excess contributions tax rate. Consultation is ongoing as to how this will be implemented and there is still some confusion around the calculation of concessional contributions for defined benefit members which is hoped to be addressed in the near future.

## **Higher contribution cap for over 50s**

The Government will set the higher concessional contributions cap for eligible individuals aged 50 and over with total superannuation balances of less than \$500,000, due to apply from 1 July 2012, to \$25,000 above the general concessional cap. This measure clarifies the operation of the higher cap for the over 50s which was introduced in the 2010-11 Budget.

The general concessional contribution cap is set at \$25,000. When it increases due to indexation, the higher cap will increase by the same dollar amount.

### **Comment:**

Currently there is a transitional concessional contributions cap of \$50,000 for those aged 50 or over which ends on 30 June 2012. Despite strong criticism of capping contributions into super, the government has reaffirmed their intention to replace this with a \$50,000 concessional contributions cap after 1 July 2012. Unlike the transitional cap which is fixed at \$50,000 the new cap will increase over time remaining \$25,000 higher than the standard concessional contribution cap for those under 50. Regardless of this limitation, superannuation continues to be an attractive savings vehicle for those saving for retirement and this provides plenty of scope for those over 50 wanting to make additional salary sacrifice contributions.

## **Government Co-contribution**

The Government will continue the freeze on the indexation applied on the income threshold above which the maximum superannuation co contribution begins to phase down for an additional year to 2012-13. The means Lower and Higher thresholds will remain at \$31,920 and \$61,920 respectively.

The Government currently provides a matching contribution of up to \$1,000 for people with incomes of up to \$31,920 with the amount available phasing down for incomes up to \$61,920.

### **Comment:**

Unfortunately the government has decided that it will continue the freeze on indexation of the income thresholds for another year. As a general rule of thumb, those individuals with total income under \$54,000 per annum in 2011/12 who have \$1,000 available to contribute to super, will be better off making an after-tax contribution rather than salary sacrificing. This is because the amount of government co-contribution received is higher than the equivalent tax savings available through salary sacrifice.

**Self Managed Funds**

The Budget reforms relating to self managed funds (SMSF's) were previously announced as part of the 'Stronger Super Government Response to the Super System Review' announced on 16 December 2010.

The reforms include:

- The introduction of administrative penalties that the ATO can apply in cases of non compliance by SMSF trustees;
- The introduction of knowledge and competency requirements on SMSF service providers, including the registration of SMSF auditors;
- Tightened legislative restrictions on SMSF investment in collectables and personal use assets;
- Requiring SMSFs to value their assets at net market value and the ATO to publish valuation guidelines;
- The appointment of the ATO to collect and publish data on the sector;
- Changes to the registration and rollover processes, and illegal early release penalties to deter the use of SMSFs for illegal activity.

Most changes will have effect from 1 July 2012. The tighter legislative standards for investments in collectables and personal use assets will apply to new investments from 1 July 2011, with all holdings of collectables and personal use assets to comply by 1 July 2016. Amendments to the Anti Money Laundering and Counter Terrorism Financing Act 2006 will have effect from 1 July 2013 and amendments to the SMSF registration and rollover processes will have effect from 1 July 2014.

## Key Points on Tax

**No change to personal income tax rates and thresholds**

Current income tax rates and thresholds for residents and non-residents will continue to apply for 2011/12. The rates applying to resident tax payers are shown in the table below:

Tax Thresholds 1 July 2010 and later years		
Low Threshold	High Threshold	Tax Rate 1 %
-	6,000	-
6,001	37,000	15
37,001	80,000	30
80,001	180,000	37
180,001 and above		45

**Temporary Flood and Cyclone Reconstruction Levy**

The Government has reaffirmed the implementation of the temporary Flood and Cyclone Reconstruction Levy (Flood Levy). The levy will apply to taxable income included in both a resident and non resident individual's tax return for the 2011/12 financial year only.

The table below outlines the income thresholds and rate of levy applicable:

Individual's taxable income	Flood Levy
Up to \$50,000	Nil
\$50,001 to \$100,000	0.5% of taxable income exceeding \$50,000
Over \$100,000	\$250 plus 1% of taxable income exceeding \$100,000

Certain individuals will be exempt from paying the Flood Levy. These are persons who have a taxable income of \$50,000 or less for the 2011/12 financial year or those who are in receipt of an Australian Government Disaster Recovery Payment from Centrelink for a declared natural disaster that occurred during 2010/11.

**Impact:**

- Most income earners with taxable income of more than \$50,000 will receive a lower net income in 2011/12 as a result of the flood levy.
- As the flood levy is payable on taxable income, any deductions claimable in the 2011/12 financial year will directly reduce the amount of flood levy payable.
- Those under age 60 with account-based pensions, including transition to retirement pensions, receiving more than \$50,000 of taxable pension income may need to increase their gross pension amount for 2011/12 if they wish to maintain their 2010/11 net income level
- Those with existing salary sacrifice arrangements who wish to maintain 2010/11 net income levels may wish to consider reducing their salary sacrifice amount for 2011/12.
- Those with surplus net income (cash in hand) could consider establishing a salary sacrifice arrangement, or increasing an existing arrangement, in 2011/12 to reduce their taxable income which will reduce the amount of tax and flood levy payable.

**Increasing the Medicare levy low-income thresholds**

The Government will increase the Medicare levy low-income thresholds to \$18,839 for individuals and \$31,789 for families, with effect from 1 July 2010. The additional amount of threshold for each dependent child or student will also increase to \$2,919. The Government will also increase the Medicare levy threshold for single pensioners below Age Pension age to \$30,439, with effect from 1 July 2010.

### Phasing out dependant spouse tax offset

The Government will phase out the dependant spouse tax offset for taxpayers with a dependant spouse born on or after 1 July 1971 (ie aged 40 or less on or after 1 July 2011).

Taxpayers with an invalid or permanently disabled spouse, supporting a carer, or people who are eligible for the zone, overseas forces and overseas civilian tax offsets will not be affected by this change.

#### Comment:

The intent of this is that the removal of this offset will result in the spouse actively looking to rejoin the workforce.

### Bringing forward low income tax offset (LITO)

From 1 July 2011, the Government will increase the amount of LITO that is available to low and middle income earners through their regular pay during the year from 50% to 70% of their total entitlements. The remaining 30% of their LITO benefit will still be paid as a lump sum on assessment of income tax returns.

An individual's total LITO entitlement in any one year remains unchanged but the adjustment will deliver up to \$300 in more timely tax relief to low and middle income earners.

### Extension of the CGT main residence exemption in relation to special disability trusts

The Government will extend the 2009-10 Budget measure that provides a capital gains tax (CGT) main residence exemption to special disability trusts (SDTs) with effect for income tax assessments for the 2006-07 and later income years.

This measure backdates the CGT main residence for SDTs and provides equivalent taxation treatment for SDTs established under different Acts. In addition the measure will provide a CGT exemption in the advent of the death of the principal beneficiary for the intended recipient of the principal beneficiary's main residence, if the recipient disposes of the dwelling within two years of the principal beneficiary's death.

### Reform of car fringe benefit rules

The Government will reform the current 'statutory formula' method for determining the taxable value of car fringe benefits by replacing the current statutory rates with a single rate of 20% that applies regardless of the distance travelled. Under the current statutory formula method, the calculated fringe benefit decreases as the distance travelled by the vehicle increases.

This reform will apply to new contracts entered into after 7:30pm (AEST) on 10 May 2011 and will be phased in over 4 years as shown in the table below:

Distance travelled during the FBT year (1 April – 31 March)	From 10 May 2011	From 1 April 2012	From 1 April 2013	From 1 April 2012
0 – 15,000 km	20%	20%	20%	20%
15,000 – 25,000 km	20%	20%	20%	20%
25,000 – 40,000 km	14%	17%	20%	20%
More than 40,000 km	10%	13%	17%	20%

#### Impact:

- Those employees who drive up to 15,000km per year will be better off, while those who drive 15,001 to 25,000km per year will not be affected as the statutory rate applying remains as 20%.
- Those who drive more than 25,000km per year will be penalised under the statutory method, however they will still be able to use the operating cost (log book) method to ensure only personal use is included in the car fringe benefit.

### Removing minor's eligibility for low income tax offset on unearned income

From 1 July 2011 the Government will remove the ability of minors (children under 18 years of age) to access the low income tax offset (LITO) to reduce tax payable on their unearned income, such as dividends, interest, rent, royalties and other income from property.

Income earned by minors from work will still be eligible for the full benefit of the LITO. Unearned income of minors who are orphans or disabled, as well as compensation payments and inheritances received by minors will not be affected by this measure.

#### Impact:

- The most significant impact will be in relation to distributions to minors from family trusts – a widely used strategy to reduce the overall level of tax paid on distributions from these trusts. Currently a minor could receive a distribution of \$3,333 from family trusts and pay no tax on that distribution. If the same amount was distributed to a minor in income years commencing 1 July 2011 or later, that distribution would result in a tax liability of \$1,500.

### Small business accelerated initial deduction for motor vehicles

The Government will allow small business to claim up to \$5,000 as an immediate deduction for motor vehicles, with effect for vehicles acquired from the 2012-13 income year. The remainder of the motor vehicle value will be pooled in the general small business pool (depreciated at 15% in the first year and then 30%).

This write off will be available to all small business, regardless of the operating entity, and replaces the Entrepreneurs Tax Offset.

#### Comment:

This measure complements the previous reforms for small business, also set for introduction from 1 July 2012, including:

- an immediate write off on all assets under \$5,000;
- a write off on all other assets above \$5,000 (except buildings) in a single depreciation pool at 30%.
- a reduction in the company tax rate to 29% for small business taxpayers.

### Interim changes to improve the taxation of trust income

The Government will implement the recommendations of the Board of Taxation to take interim steps to improve the trust income tax provisions, with effect from 1 July 2010. These interim steps are necessary to provide certainty while the Government updates and rewrites the trust income tax provisions in Division 6 of Part III of the Income Tax Assessment Act 1936.

To implement the Board's recommendations, the Government will introduce legislation to:

- enable the streaming of capital gains and franked distributions; and
- target the use of low tax entities, especially exempt entities, to reduce the tax payable on the taxable income of a trust.

### Additional payment option for child care rebate

Families in receipt of the Child Care Rebate (CCR) will have the additional option of receiving CCR payments directly to their bank account on a fortnightly basis from 1 July 2011.

This measure builds on reforms in the 'Mid Year Economic and Fiscal Outlook 2010 -11', which allowed families to receive CCR payments fortnightly as a fee reduction via their child care service.

The proposal will allow families to choose from a greater range of CCR options.

## Key Points on Social Security

### DISABILITY SUPPORT PENSION

#### Allow recipients to work up to 30 hours a week

The Government will allow all Disability Support Pension (DSP) recipients to work up to 30 hours a week and remain eligible for a part pension for up to 2 years. This will allow recipients granted DSP under the current 15 hours a week test (in place since 11 May 2005) to increase their working hours without the suspension of their DSP entitlement. It also addresses the inconsistent treatment of people granted DSP before or after May 2005. DSP recipients will still be subject to an income test.

#### Participation requirements

New and existing DSP recipients under the age of 35 with some capacity to work will be subject to new participations requirements from 1 July 2012.

Recipients assessed as having a partial work capacity of eight or more hours per week, and are not working, will be required to attend Centrelink interviews on a quarterly basis for the first 18 months after they receive the payment and then twice a year in order to create a participation plan. Participation interviews will continue whilst the recipient is under the age of 35 maintains a partial work capacity and is not working.

Existing recipients under the age of 35 without an assessed work capacity level, whom Centrelink deem likely to benefit from participation interviews, will undergo a revised assessment to determine whether they should be subject to the new requirements.

DSP recipients who have a work capacity of less than eight hours a week, or who are already participating in open employment, an Australian Disability Enterprise or the Supported Wage System, will be excluded from the participation requirements.

### Implementation of more efficient and accurate assessments for Disability Support Pension

From 3 September 2011, DSP recipients will need to provide evidence that they have tested their future work capacity by participating in training or work related activities. This activity test will not apply to claimants who are clearly unable to work due to, for example, profound disability.

This measure was previously announced to commence 1 January 2012.

### Portability Changes

From 1 July 2012, the Government will provide indefinite portability of the DSP for recipients who have a severe and permanent disability and no future capacity to work. However, DSP recipients who stay longer than 13 weeks will no longer be entitled to add-on payments such as the Pension Supplement or Rent Assistance. If a carer accompanies the DSP recipient overseas, any Carer Payments or Carer Allowance payable will cease at 13 weeks.

The measure also extends portability where a DSP recipient with a severe disability has a carer who is posted overseas for work and wishes to continue their carer responsibilities. From 1 July 2011, the DSP recipient will be entitled to continue to receive their pension for the period of their family member's posting.

#### Impact:

As a result of these announcements, those receiving a DSP will need to consider whether or not it is worthwhile increasing their number of hours worked due to the reduction in the DSP under the incomes test.

#### Comment:

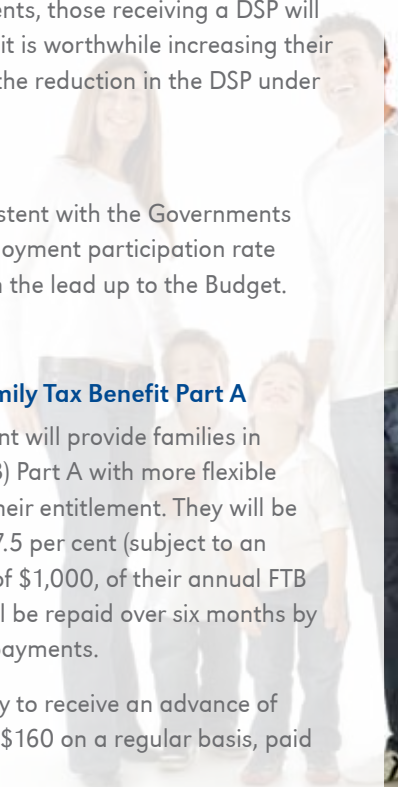
These announcements are consistent with the Governments intentions of increasing the employment participation rate within Australia as announced in the lead up to the Budget.

### FAMILY TAX BENEFIT

#### More flexible advances for Family Tax Benefit Part A

From 1 July 2011, the Government will provide families in receipt of Family Tax Benefit (FTB) Part A with more flexible access to advance payment of their entitlement. They will be eligible for an advance of up to 7.5 per cent (subject to an assessment), up to a maximum of \$1,000, of their annual FTB Part A entitlement. Advances will be repaid over six months by reducing future fortnightly FTB payments.

Families will also be able to apply to receive an advance of the minimum amount of around \$160 on a regular basis, paid



every six months. Families who choose to receive a continuous advance will also be able to take one off advances to cope with unexpected expenditure requirements.

**Comment:**

This will provide assistance for many families to manage the cost of living and managing cash flows to better meet unexpected expenses.

**Aligning Family Tax Benefit Part A eligibility with Youth Allowance age of independence**

From 1 January 2012, eligibility for FTB Part A will be limited to children up to the age of 21. When a child turns 22 years of age, they may be eligible to receive Youth Allowance (YA) subject to the relevant means testing rules.

**Pause indexation of Family Tax Benefit supplements for three years**

Indexation of FTB Part A and B supplements will be paused for three years. These payments will be fixed at the current 2010-11 levels of \$726.35 per annum per child for FTB Part A and \$354.05 per annum for FTB Part B until 1 July 2014.

**Pause indexation of upper limits and thresholds for a further two years**

The higher income thresholds and limits for family payments will remain fixed until 1 July 2014 (as opposed to being indexed in line with CPI). This means that:

- FTB Part B primary earner income limit will remain at \$150,000;
- The income limit for receiving the dependency tax offsets will remain at \$150,000;
- The Baby Bonus eligibility limit will remain at \$75,000 of family income in the six months following the birth or adoption of a child, equivalent to \$150,000 a year;
- The Paid Parental Leave primary carer income limit will remain at \$150,000 in the financial year before the birth or adoption of a child;
- The higher income free threshold of FTB Part A will remain at \$94,316 of family income, with an additional \$3,796 provided for each child after the first.

Income limits are the amount a family can earn before they are no longer eligible for family payments, and the higher income free area for FTB Part A is the income level at which FTB payments begin to reduce. The FTB Part A income cut off for each family varies depending on the number and age of their children.

**Comment:**

Families will need to be aware of the continued freeze in these thresholds and consider the potential impact to their household income should they fail to remain within them.

**New start date for paid paternity leave**

The start date for paid paternity leave which was to commence 1 July 2012, will be deferred by 6 months to 1 January 2013. Eligible working fathers and other partners who are providing

full time care or sharing the child's care will be paid two weeks paternity leave at a rate equivalent to the national minimum wage for children born on or after 1 January 2013.

**Comment:**

The Government first made this announcement in September 2010 and a delay in its implementation will be a disappointment to those families planning towards commencing a family.

**Incentives for single parents and parenting payment reforms**

The Government will introduce reforms to encourage single parents receiving income support to transition into paid employment. Single principal carers with a youngest child aged less than 16 on Newstart Allowance (NSA) will be subject to a more generous income test from 1 July 2013. NSA payments will reduce by 40 cents for every dollar of income earned above \$62 per fortnight as opposed to 50 cents in the dollar for income from \$62 dollars per fortnight and 60 cents for income above \$250 per fortnight. This will bring the taper rate for single parents receiving NSA in line with that of Parenting Payment Single (PPS), and reward part time work.

From 1 January 2013, parents who were on PPS or Parenting Payment Partnered (PPP) prior to 1 July 2006 will be eligible for PPS or PPP until their youngest child turns 12 rather than the current 16 years. Parents that transition onto NSA will be eligible for the more generous income test taper.

The following transitional arrangements will apply to parents whose youngest child will be above the threshold age on implementation:

- Parents with a youngest child born before 1 January 2000 (so has turned 13 before 1 January 2013) will continue to be assessed under current arrangements and will remain on Parenting Payment until their youngest child turns 16 years of age;
- Parents with a youngest child born between 1 January 2000 and 1 January 2001 (so has turned 13 during 2013) will cease to be eligible for Parenting Payment once their youngest child turns 13 years of age; and
- Parents with a youngest child born before after 1 January 2001 (so turns 12 on or after 1 January 2013) will cease to be eligible for Parenting Payment once their youngest child turns 12 years of age.

In addition to these transitional arrangements, children born after 1 July 2011 will extend Parenting Payment eligibility for parents in receipt of payment before 1 July 2006 in the same way as for parents who came onto payment after 1 July 2006. This means they will extend eligibility until they turn six (partnered parents) or eight (single parents).

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*Infocus Securities Australia Pty Ltd ABN 47 097 797 049 AFSL / ACL No. 236523 trading as Infocus Money Management*

# Tax effective ways to boost your super savings before June 30



With the end of financial year just around the corner, there are many ways you can increase your retirement savings by implementing tax-effective super strategies.

## How you can benefit

The end of financial year is a great time to think about how you can boost your super savings before 30 June, and get your financial affairs in order.

There are many strategies you can implement before the end of financial year to boost your retirement savings and achieve tax savings, such as taking advantage of the government co-contribution scheme, or benefiting from spouse contributions and salary sacrificing.

End of financial year planning opportunities are different for everyone, because they depend on your life stage and personal circumstances.

A financial adviser is the best person to work out which strategy best suits your personal circumstances. They will also make sure you and your family don't miss out on any opportunities at the end of the financial year.

## Pay less tax via salary sacrifice

Salary sacrifice means putting part of your pre-tax income into your super and potentially paying less tax because concessional contributions are taxed at 15% (within certain limits). This is

compared to investing your after-tax money into super which may have been taxed at a marginal tax rate of up to 46.5%.

Whether salary sacrifice is right for you will depend on your personal circumstances and level of income.

## Claim a tax deduction on your super contributions

By making personal contributions to super, you may be able to claim a tax deduction to reduce your assessable income. The contribution claimed as a tax deduction is taxed at 15% instead of your marginal tax rate.

To take advantage of this strategy, you must generally earn less than 10% of your assessable income (plus reportable fringe benefits and reportable employer super contributions) from an employer.

This strategy is ideal for people running a business as a sole proprietor or in partnership, as well as some retired or unemployed people.

## Take advantage of government concessions

Many people can take advantage of the government concessions available to increase their super savings, such as the Federal Government co-contribution scheme.



If you are a low to middle income earner and eligible for the co-contribution scheme, the Government currently contributes up to \$1 for each \$1 of personal after-tax contributions you make to your super. This could mean up to an extra \$1,000 in your super account – a significant amount.

### Boost your spouse's super savings

If you have a low income earning spouse, you can help to top up their retirement savings by contributing to their super and reduce your income tax at the same time. You receive a tax offset of up to \$540 if you contribute to their super.

You could also split your employer super contributions or personal deductible contributions with your spouse. This strategy may reduce your tax liability, and if you contribute more into the older spouse's super, it may mean accessing tax-free benefits sooner.

### Protect your family

Under insurance is a major issue in Australia and this can be frightening for you or your family if you were to get very sick, pass away or become disabled.

You may get adequate life insurance cover and pay less for premiums by purchasing insurance through your super. This involves holding life insurance in your super account and using your contributions or account balance to pay for the premiums,

rather than paying for the premiums from your after-tax money. The tax savings are one of the biggest advantages of this strategy, plus your premium is likely to be cheaper because the super fund is buying the insurance 'in bulk'. This strategy may not be for everyone so it is important that you consult a financial adviser before purchasing insurance through super.

strategy may reduce your tax liability, and if you contribute more into the older spouse's super, it may mean accessing tax-free benefits sooner.

### Act now so you don't miss out

As you can see, there are many super strategies you can put into place to boost your retirement savings and achieve tax benefits before 30 June and thereafter. "And even though there is a special focus on utilising these opportunities before 30 June, these strategies can actually be used all year round to grow your retirement savings."

For more information on these super strategies and end of financial year planning, speak to your financial adviser.

Source: OnePath

This material is current as at February 2011, but may be subject to change. It has been prepared without taking into account your objectives, financial situation or needs. Before making a decision based on this material, you should consider the appropriateness of the advice, having regard to your objectives, financial situation and needs

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Our industry-leading MoneyForLife retirement solution has won several awards including Money Magazine 'Best of the Best' Innovative Super Product Award 2010.

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The team that made all of this possible continues to be dedicated to delivering award-winning solutions.

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INVESTMENT • INSURANCE • SUPERANNUATION

# How to get ready for retirement

You are likely to spend more than 20 years in retirement. Don't leave things to chance; you've earned it, so don't lose it.

Retirement – it's a subject that many people tend not to think about too much. After all, for many people, retirement is a long way off, so why worry about it now?

## How long will your retirement last?

There are many reasons why planning now can put you in the driver's seat later. For starters, have you thought about how long your retirement could last?

Take John and Mary, a couple aged 55: there's a 72% chance Mary will live to celebrate her 80th birthday and a 56% chance John will celebrate it with her. If they both make it to 80, she has a 7% chance and he has a 4% chance of living to 100. On average, once men and women reach age 65 they are likely to live a further 18 and 21 years respectively.

How many years will you have in retirement?		
Age at retirement	Female	Male
55	31 years	27 years
60	26 years	23 years
65	22 years	19 years
70	17 years	15 years
75	14 years	11 years

Source: Australian Government Actuary (2005-2007).

The bottom line is that, in order to make sure that your money doesn't run out before you do, you may need to plan to be retired for at least 20 years – or be prepared to accept the fact that you may have to keep working for much longer than you anticipated.

So you need to start thinking seriously about how you are going to provide for your retirement and consider seeking financial advice now, rather than later. Apart from anything else, planning for your retirement will mean that you can improve the chances of retiring when you want to, rather than having to stay at work.

## What do you need to consider?

Although you may retire whenever you choose, there are rules covering when you can access your super (for example, your preservation age), or convert it to an income stream (pension). So you need to bear this in mind when planning for your retirement.

### Accessibility

Generally, you must reach your preservation age before you can access your super as a lump sum or an income stream. The table below shows when you can access your super. People born before 1 July 1960 can access their super when they are 55, whereas if you were born after 30 June 1964, you have to be 60. If you are not quite ready to fully retire, but might be looking to reduce your working hours in the lead-up to retirement, a pre-retirement pension might be right for you if you are age 55 or over. It allows you to convert your super into an income stream but doesn't allow you to make a lump sum withdrawal until you're fully retired or have reached age 65.

How old do you have to be before you can access your super?	
Your birthday	Preservation age
Before 1/7/1960	55
1/7/1960 – 30/6/1961	56
1/7/1961 – 30/6/1962	57
1/7/1962 – 30/6/1963	58
1/7/1963 – 30/6/1964	59
After 30/6/1964	60



## Qualifying for the Government Age Pension

Another major consideration is that if you are expecting to get the Age Pension in your retirement, you need to factor in the age at which you are able to apply. This depends on whether you are a man or a woman. Men born before 1 July 1952 are eligible at age 65. Women born before 31 December 1945 have reached age pension age. For women born between 1 January 1946 and 1 July 1952, see table below.

Women born between	Eligible for Age Pension at age
1 January 1946 and 30 June 1947	64
1 July 1947 and 31 December 1948	64.5
1 January 1949 and 30 June 1952	65

For both men and women born before on or after 1 July 1952 see table below.

People born between	Eligible for Age Pension at age
1 July 1952 and 31 December 1953	65.5
1 January 1954 and 30 June 1955	66
1 July 1955 and 31 December 1956	66.5
1 January 1957 and later	67

Taking these two factors into consideration, there could well be gaps between the time you choose to retire, the time you are able to access your super, and the time you can apply for the Age Pension.

## So how much can you expect to receive on the Government age pension?

Currently, the maximum pension is around \$18,229 pa for a single person, or around \$27,482 for a couple\*. Once you do the sums, you will realise that few people can rely on funding their retirement solely from this source.

Most people find they need an additional source of income, such as their super, to help fund their retirement. The value of your super and other savings can affect how much age pension you receive as, when you apply, you will be 'means tested' to determine your eligibility.

## Means testing

There are two separate tests used to determine the level of Government age pension payments you might receive – an income test and an assets test. Your entitlement is subject to both an income test and an assets test, and the test which results in the lowest rate of payment is used by the Government.

For more information on current thresholds visit [www.centrelink.gov.au](http://www.centrelink.gov.au)

## Your financial position

Of course, there are other financial considerations to think about.

- Will you still have a sizeable mortgage to pay off?
- What about your children's education costs?
- What lifestyle do you desire in retirement?
- Have you saved enough to sustain your current lifestyle in retirement?
- Can you afford to retire or do you need to keep working?

## How much super is enough?

That all depends on how much money you think you will need in retirement. This will be different for everyone.

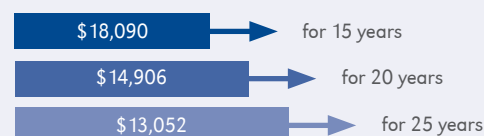
To give you an idea of what is achievable, here are two examples which may help. Both examples assume that your retirement income has to keep pace with inflation of 2.5% pa, and that the investments deliver a return of 7% pa.

A change to one or more of the variables will produce different results. These examples are for illustration only and do not take into account any of your personal circumstances. You should speak to a licensed financial adviser to determine what is suitable for you.

### Example 1

TBill accumulates \$200,000 in super. On retirement, he converts his super into a pension which pays a regular income each year. Looking at the chart below, based on the assumptions we have made, you can see that \$200,000 could deliver \$18,090 per annum for 15 years, \$14,906 for 20 years, or \$13,052 for 25 years.

\$200,000 in super earning 7% pa with inflation running at 2.5% pa will pay an indexed income of:



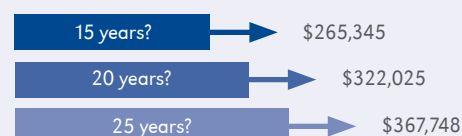
Source: Colonial First State. Amounts shown in today's figures.

Will this be enough? A superannuation target of \$500,000 could potentially deliver \$37,264 pa for 20 years, or \$32,631 pa for 25 years.

### Example 2

Robert sets a target income of \$24,000 pa in retirement, indexed for inflation at 2.5% pa. Looking at the chart below Robert would need to accumulate \$265,345 for 15 years, \$322,025 for 20 years and \$367,748 to last 25 years.

How much super will Robert need earning 7% pa with inflation at 2.5% pa to pay an indexed income stream of \$24,000 pa for:



Source: Colonial First State. Amounts shown in today's figures.

To estimate how much super you could have when you retire and any additional salary sacrifice contributions you may need to make to reach your ideal sum, go to the 'How much super is enough?' calculator at [colonialfirststate.com.au](http://colonialfirststate.com.au).

# Global Growth Largely Intact. Go International.



This year has seen a confluence of events have occurred which have not only resulted in the tragic loss of human life, but also acted as a catalyst for a slight market correction. While the immediate concerns are for the safety and well-being of those affected, the unrest in the Middle East and North Africa and the natural disasters in New Zealand and Japan, have also raised questions about the impact on global economic growth. Oil prices have since climbed to above \$100/bbl - a level last seen in September 2008, and at these levels is estimated to take up to 0.25 percentage points off US GDP growth - the US being one of the world's biggest consumers of oil.

According to Morgan Stanley's Global Economist, Joachim Fels, the severity of the impact on global growth is likely to be limited given that: 1) monetary conditions remain quite loose, and the economy is in the early stages of a recovery as opposed to the end of an economic expansion where rates are high and rising; 2) structural changes in the economy mean there is now less dependence on oil than in previous oil shocks; and 3) the wealth transfer to oil exporters is likely to be spent, especially in areas where the risk of social unrest is high.

Our assessment at this stage is that unless the situation

intensifies and threatens key oil producing nations such as Saudi Arabia, we would not expect the supply side shock to cause oil prices to spike to such an extent as to restrict growth.

The earthquake in north east Japan, while tragic in terms of the scale of devastation and human loss, should from an economic standpoint also only have a limited short term impact on the global economy. Japan today only represents around 6% of world GDP (compared to 9-10% twenty years ago) - see Figure 1. In addition, given the Japanese economy has not grown in nominal terms in 20 years, its contribution to global growth has also fallen to minimal levels.

Under a bear case scenario, where the hit to confidence leads to a recession, Japan's 2011 GDP could fall 1%YoY. In this scenario, global GDP growth forecasts- including some multiplier effects- could fall by ~0.3ppts, which does not seem overly significant compared to global growth forecasts of 4.0-4.5%.

What these figures on Japan do not consider though, is the amount of re-construction that will be required further down the track, which should offset the near term negative impacts and add to GDP growth over a 2 year view.

**Figure 1: Japan Share of World GDP is at the Lowest Level**

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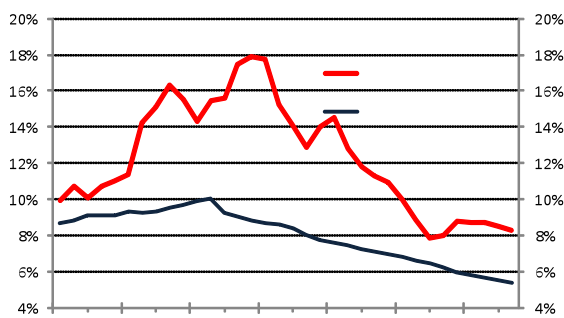


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## in More Than 30 Years

What's more, the events of the past few weeks have largely



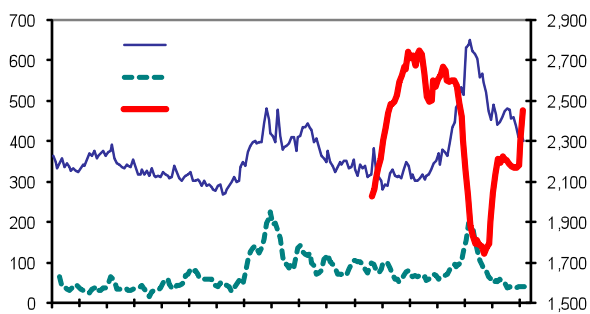
Source: IMF, MSSB Research

overshadowed emerging signs of a recovery in the US (and also in parts of Europe).

Since the start of this year we have seen business activity pick up in the US, and signs are that the labour market is following suit. The number of people making jobless claims has fallen, the number of planned layoffs is at 10 year lows, and job ads are increasing (see Figure 2).

### Figure 2: US Employment Lead Indicators are Positive

In Europe, activity is expanding in the core European economies



Source: Bloomberg, Conference Board, MSSB Research

of Germany and France, which together make up around 48% of Euro Area GDP. More recently, we have seen EU leaders agree to enhance the bailout facilities by: 1) lifting the lending capacity of the European Financial Stability Fund from €220bn to the full €440bn; 2) reducing the interest rate and debt repayment schedule of Greek loans under the bailout package; and 3) setting the size of the European Stability Mechanism to \$500 billion.

While further action is needed in Europe - including further recapitalisations and debt restructurings - we see these as steps in the right direction.

With this in mind (and after 10 years of underperformance), we are becoming increasingly optimistic about having more international exposure, especially to the US. Apart from the benefits of diversification, we are recommending increasing international exposures in portfolios due to:

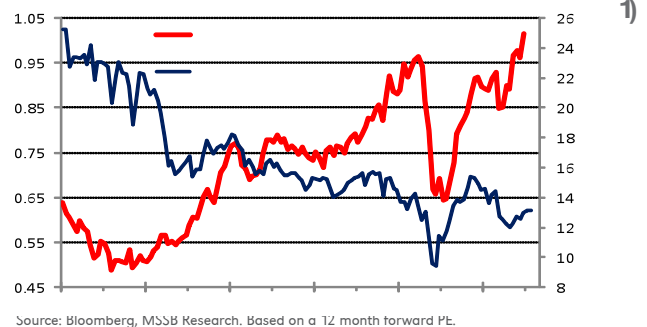
- 1) **Attractive equity valuations:** the US 2012 PE of approximately 12x and Emerging Market PE of <11x, are both well below their respective long term averages. To put this simply, over the last 10 years we have seen US PEs halve;
- **Australian Dollar at a post float high:** at the

same time, a strong local currency has worked against international investing. However, the Dollar is now looking relatively expensive, and given the relative interest rate spread between Australia and the US is likely to have peaked, we think there is also now one less driver to push the AUD higher

- **Abundant liquidity:** while the Reserve Bank of Australia has moved to a tight monetary stance, most other major economies have interest rates close to zero, in an effort to kick start growth.
- **A pattern of above trend GDP and earnings growth is emerging:** the US is showing signs of a recovery, and may continue to build momentum as it works off past excesses in credit and housing, and businesses shift from a focus on cost cutting to growth. Similarly, there are encouraging signs in parts of Europe.

### Figure 3: Go International! The US PE has Halved While the AUD has Doubled

There are various ways to play the international story -



Source: Bloomberg, MSSB Research. Based on a 12 month forward PE.

**Buy Australian multinationals stocks with higher levels of international exposures.** Some names we like include - News Corporation, James Hardie, and ResMed;

2) **Buy Managed Funds.** Our current preferred international equity funds include Vanguard Index International Shares Fund and Platinum International Brands Fund;

3) **Buy ETFs;** or

4) **Through direct investment in international equities.** Our current preferred international equity funds include Vanguard Index International Shares Fund and Platinum International Brands Fund;

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