
HOLDEN & BOLSTER

Biznews

Level 10, 34 Hunter Street, SYDNEY NSW 2000
Facsimile: 61 2 9231 4790 Telephone: 61 2 9231 4133
Email: brian@holbol.com.au
Web: www.holbol.com.au

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Where's your cheese?

"The terror of September 11 has begun a new era of uncertainty", the Media tells us. However life has always had its uncertainties. How many people do you know who have had experienced a sudden illness, an unfortunate event or a failure in their lives? Probably quite a few. Because that's life, it is uncertain.

Spencer Johnson, M.D., an internationally respected thought leader is the author of #1 bestselling *"Who Moved My Cheese? An A-Mazing Way to Deal with Change at Work and in Life"*. The story is a simple parable with four characters, who represent parts of ourselves. They live in a "Maze" and look for "Cheese" to nourish them and make themselves happy.

"Cheese" is a metaphor for whatever you want to have in life, a job, relationship, health, peace of mind. And the "Maze" is where you look for it.

The story shows what happens to the characters when the Cheese has been moved to another part of the maze. Some are prepared for it and

do well. Others are surprised and have a difficult time.

The out-take is that we all need to "Move with the Cheese" and adjust to change by 'having a go' and taking the risk in going in a new direction to get to where we want to be.

It's very similar to our financial matters. Taking the risk to look at our situation and where we want to be in 5, 10, 20 and 30 years time and then doing something about it now.

So many people will not even risk having a peek at their current position. We don't need to take on the scaremonger stories of the Media. We all know that it's bad news that sells, instead, we need to review our position and 'move with our cheese'.

Superannuation is one the most tax effective ways of saving for our cheese of our 'lifestyle of later'. In this issue we look at ways of maximising our inventory of cheese. Please call us so that we can help you to ensure that your financial goals are on track.

Ray Beath,
Managing Partner

This Issue

- ◆ **Where's your cheese?**
- ◆ **Having enough**
- ◆ **13 ways to take action**
- ◆ **Drive your business higher**
- ◆ **So you want to live longer?**



Having enough

Not having enough Super can be a result of specific activities:

- ◆ Making insufficient contributions that will generate sufficient capital at retirement.
- ◆ Expecting to make the bulk of contributions near the end of working life only to find that the required contributions take too much of your salary needed for current expenses.
- ◆ Leaving the majority of contributions until your late 40's to 60's when you are more susceptible to illness, redundancy business failure or other family crisis.
- ◆ Over caution in selecting investments such that sufficient growth is not included.
- ◆ Big spending of your retirement 'nest egg' that is also producing income for you.

“ I wasted time, and now doth time waste me.”

William Shakespeare

What to do?

Here are 13 ways to take action

1. Start early and accumulate at a faster rate. The power of compounding interest is a key to wealth accumulation. By contributing as early as possible and increasing the amount of contribution consistently each year.
2. Keep saving. By making small increments each year to savings, the accumulation rate will go up.

3. Delaying retirement. Choosing to work longer and maintain super accumulation rate.

4. Realistically consider your lifestyle, both now and into retirement. Review spending habits.

5. Be aware of an often-unconscious drift in upward spending expectations and the rising costs of living, inflation and the rising costs of a continued expansion of lifestyle costs.

6. Hedge certain risks with insurance. While not all major events that can affect us are insurable, make sure you are appropriately covered.

7. Use debt wisely. Understanding what can go wrong with borrowed funds intended to leverage the gains of compound interest is crucial. So making sure that you have some risk management in place is key.

8. Avoid periods of no net gain.

9. Whenever you increase your income to simultaneously increase your superannuation.

10. Avoid major distractions that may cause a blow-out in wealth targets.

11. When needing to rely on support systems, do so without erosion of your net wealth.

12. Maintain efficiency in earnings, that is, ensure you pay appropriate amounts of tax.

13. Get going and get reviewed at least yearly with Alex.

Alex Koutzoumis is the Partner responsible for Investment planning and wealth generation

Risk management and superannuation

In planning your superannuation, you need to take into account and allow for risks that are encountered over time.

It is simply termed risk management. It is important to periodically review your risk situation as your needs and circumstances change. For example, you may decide to take up hang-gliding in your retirement and this would change your risk management scenario.

In the event that an insurance claim is required, obviously it is important to have sufficient funds to meet commitments and at the time of calculating what those commitments would be, the amounts calculated may appear large. However the planner uses formulas and measures that have been tried and proven to ensure that provision is adequate. This is also the reason for reassessing your risk management needs regularly, for example, the effect on your expenses when your family finish their University studies and leave home.

There are many forms of cover mostly used in different combination to cover people's various circumstances, lifestyles, life phase and health. Besides general insurance covers such as sickness and accident cover, consumer credit, house and contents, there are other covers. Your situation will be different to someone else, for example, professional indemnity insurance or commercial insurance if you own a business.

Usually there is no single answer but a variety of insurance options. The detail of your circumstances is very important to ensure that the most appropriate solution is found for your needs.



Social Security system makes Super looks scarce for some

The Government has indicated that some of the biggest challenges it faces are in relation to retirement and the social security system.

For instance:

* 30% of people aged 55-64 are receiving income support payments, suggesting that these people will not contribute to, and may draw upon, superannuation for up to 10 years in the years immediately leading to their age pension age.

* People who enter income support before age pension age and remain there until age pension age are likely to be least financially prepared for retirement. The number of people aged 55-64 will increase by almost half in the current decade. If the trend to greater reliance on income support is not halted, a significant number of these people will have reduced capacity to earn, and to accumulate retirement and other savings.

* There is also concern about the growing number of people of all ages who are dependent on income support for substantial periods. This reduces both the period of their potential contribution to superannuation and the period that the contributions could compound to provide higher superannuation benefits at retirement.

* In May 2002, 294,960 people had been receiving one of the main labour market income support payments for 3 years or more and 168,131 people for 5 years or more.

* Of the 2.662m people aged over 65, as at December 2001, 45.2% received the full age pension; part-rate age pension (22.5%); Veterans' pension (13.3%); other

income support payment (1%) and Commonwealth Seniors Health Card (10.2%). Most incredibly, only 7.8% receive no social security assistance.

Source: Department of FaCS submissions to Senate Select Committee inquiry into superannuation and living standards in retirement, July 2002

Around the Tax traps

Luck on Levy

The cost of an annual emergency services levy imposed by local Council on an income producing property can be claimed as a deduction. This is because the levy is connected with the gaining or producing of assessable income. Source: ATO ID 2002/899

No CGT free roof for kids

The capital gain made on the disposal of a dwelling occupied by a taxpayer's children, but not the taxpayer, cannot be disregarded. Source: ATO ID 2002/900

No meals or bed for Self Ed

A taxpayer cannot claim a deduction for the cost of accommodation and meals incurred in relation to undertaking a degree course at an overseas educational institution. This is because the expenses are of a private or domestic nature. Source: ATO ID 2002/901

ATO resources flat as a pancake

A Chinese Pancake is not really a pancake so it is GST-free.

The terms 'pancake' and 'crepe' are not defined in the GST Act and therefore take on their ordinary meaning. *The Macquarie Dictionary* (1997) defines pancake as 'a thin flat cake made from a batter of eggs, flour, sugar, and milk, cooked in a frying pan' and crepe as 'a thin pancake'.

Although the product is known as a 'Chinese pancake', it is not a kind of 'pancake' or 'crepe'. Rather, it is similar to tortilla or flat bread. While the 'Chinese pancake' contains flour, oil, salt and water, unlike the traditional pancakes or crepes, the 'Chinese pancake' does not contain egg or milk. Therefore, the 'Chinese pancake' is not food of a kind covered by Item 20 which lists various bakery items including pancakes and crepes so it is a GST-free supply. Source: ATO ID 2002/908

Deducting the cost of establishing your business structure

If you incurred costs during the year to incorporate a company, create a trust or form a partnership through which you carry on your business, you may be entitled to claim a deduction for those costs over five years.

The uniform capital allowance system or UCA has new deductions for capital expenditure that were previously not deductible. The expenditure is written off over five years. The deduction is only available for amounts incurred from 1 July 2001. If your business earns income that is not assessable, such as exempt income, your deduction is reduced.

Some proposed changes to the deduction were introduced to Parliament on 27 June 2002. If passed by Parliament, they will also apply from 1 July 2001.

The UCA as amended will make it clear that a deduction is available over five years for expenditure to establish your 'business structure'. Your 'business structure' means the entity, such as a company or trust that carries on your business and holds the business assets. Examples of business structure costs that may be deductible are the expenses of incorporating a company, creating a trust or forming a partnership. The

deduction is not available for the cost of acquiring a franchise or goodwill, or in relation to leases.

Other types of capital expenditure which are now deductible under the UCA include the costs to stop carrying on your business and to convert your business structure to a different structure (for example, if you are a sole trader and decide to start carrying on your business through a company). These costs can also be written off over five years. Source: ATO

Ask why and drive your business higher

Planning cycles do not always drive business strategies. Changing technology and uncertain regulation sweeping across industry has necessitated a fundamental shift in how companies approach financial planning. Also, September 11 has made predicting the future with confidence more risky.

Business strategy is about preparing for multiple possibilities. A harmonious workplace culture that encourages flexibility is likely to produce the best results for employers. Professor John Kotter of Harvard Business School has researched the connection between adaptive corporate cultures and financial success. He purports that employers need to maintain a strong focus on three key criteria- customers, employees and stakeholders and encourage adaptive and high performing cultures.

Being consciously focussed on how to maintain a positive culture includes;

- ◆ Staying visibly connected to your people and clients
- ◆ Being credible - showing concern, commitment and consistency
- ◆ Creating meaning - reaffirming your core purpose

and values and connecting this to the motivation of your people. There has to be a deliberate strategy to build a strong culture and improving in company performance will follow. This is about engaging the hearts and minds of your people through a strong, identifiable culture, effective leadership and people practices that are aligned with this culture.

Conduct a survey with your people, find out why they work with you and uncover your company's strengths and improvement areas as they see it.

So you want to live longer?

Aging comes about through the gradual build-up of non-repaired faults in the cells and tissues of our bodies. And we are living longer thanks to science, medicine and civilisation.

Think about this, 100 years ago, one person in 25 was over 65 years. Today, it's one person in eight. Within 40 years, it will be one in four. So it won't be all that long before a quarter of our population is of what we traditionally regarded as retirement age. (Over the same 40 years, the proportion of the population aged under 15 is projected to fall from 20 per cent to 15.)

Our aging population is due to three elements: the looming retirement of the great bulge of baby boomers, the declining rate of fertility and rising life expectancy. With every 10 years that pass, life expectancy increases by two years.

Life expectancy at birth is now up to almost 77 years for men and 82 years for women. People who've already reached 65, however, can expect to last till they're 82 or 85 respectively - that is, they've got an average of another 17 or 20 years

to go. And Australians live longer than people in all but a few countries.

We're also younger in our state of mind than people previously at our age. That counts for living longer. So planning for retirement is more important now than for our parents because you will live longer!

5 quick ideas to help eliminating phone tag

1. Use e-mail. If you're really having difficulties getting in touch with someone, use e-mail instead though be careful of the tone you use as it can often be misunderstood.
2. Every time you make a phone call, be prepared to leave a voicemail that includes:
 - ◆ your name
 - ◆ company name
 - ◆ phone number
 - ◆ your e-mail address
 - ◆ the reason for your call
 - ◆ when and where the person can return your call if needed
3. Skip the call and send a fax instead. Also, if the person can respond via e-mail or fax, rather than the phone, ask him to do so in a fax cover note. Chances are, the communication will be quicker than playing phone tag.
4. If you are calling to reply to a question or inquiry with a simple answer, just leave a detailed message and say that it's not necessary to call you back.

Ask people when the best time is for you to call them.

Brian Willett is one of the Partners providing Clients with Business Guidance.