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APRA LICENCE GRANTED

Having passed the stringent testing process, Combined Fund was granted its licence and registration by the Australian Prudential Regulation Authority in November last year.

Superannuation funds must be licensed in order to continue operating beyond 1 July 2006 but, at the time of going to print, only 74 funds had been granted licences.

CONTRIBUTION SPLITTING – A way to reduce your tax bill?

Recently passed legislation enables superannuation funds to offer members splitting of certain superannuation contributions with their spouse. This could result in significant tax savings, particularly for those who have already accrued substantial superannuation benefits.

After 1 July 2006, you will be able to nominate how much (if any) of your benefits arising from contributions made to the Fund between 1 January 2006 and 30 June 2006 is to remain in your account and how much you wish to split with your spouse.

Contributions that can be split include:

- personal after-tax contributions;
- Salary Sacrifice contributions; and
- contributions paid by your employer.

From the start of each new financial year after 1 July 2006, you can make a new splitting nomination in respect of benefits arising from contributions paid during the previous financial year.

WHY WOULD YOU DO IT?

If you have significant superannuation savings but your spouse does not (or vice versa), then transferring benefits between your superannuation account and your spouse's account could result in a considerable tax saving at retirement.

If taken as a lump sum, your superannuation benefit is generally split into three tax components:

- Undeducted contributions – contributions you have paid from after-tax salary (not salary sacrifice) since 1983;
- Pre-83 component – benefits which relate to your employment before July 1983 and which may still be accruing;
- Post-83 component – the remainder of your superannuation benefits. For most people, this is the majority of their benefits.

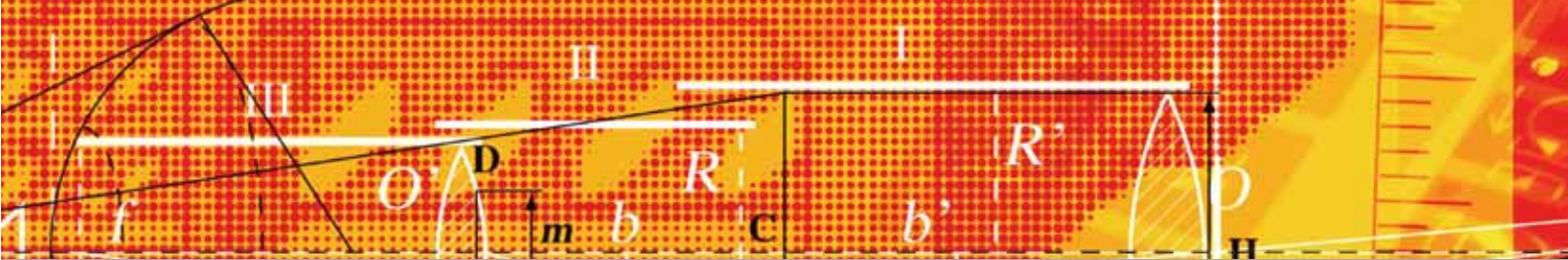
There is no tax payable on undeducted contributions and relatively little tax applies to your pre-83 component.

After age 55, the first \$129,751 of your post-83 component is tax-free but the remainder is taxed at 16.5% (including Medicare Levy). The tax-free threshold is increased each year in line with wages growth and is expected to increase to around \$136,239 on 1 July 2006.

If your post-83 component is likely to exceed (or already exceeds) the tax-free threshold, a benefit tax of 16.5% will ultimately apply to future contributions made by your employer (including salary sacrifice contributions). This is in addition to the 15% contributions tax which currently applies.

However, if your spouse has not accumulated very much in superannuation savings, their post-83 component may be well short of the \$129,751 tax-free threshold (or whatever it grows to with annual indexation).

Transferring benefits arising from future employer and salary sacrifice contributions to a superannuation account in the name of your spouse could enable him or her to build a greater tax-free benefit at retirement than they may otherwise achieve.



Example 1:

Bill is 50 and has accumulated total superannuation savings of \$200,000. His post-83 component is already \$170,000 so any future employer/salary sacrifice contributions will be taxed at 15% (contributions tax) when paid to his fund account. Benefits arising from those contributions will be taxed at 15% plus Medicare Levy upon retirement if withdrawn as a lump sum.

Bill's spouse, Betty, is also 50 and has accumulated superannuation savings of \$28,000, almost all of which is post-83 component. She receives employer contributions of \$3000 per year and is unlikely to reach her tax-free threshold (currently \$129,751) by retirement age.

It may be very beneficial for Bill to transfer benefits arising from his future employer/salary sacrifice contributions to Betty's superannuation account once a year. This will build up her tax-free benefits and will reduce the growth of Bill's taxed benefits.

Example 2:

Fred is 46 and has \$140,000 in his superannuation fund account (all of which is post-1983 benefits). Fred's employer contributes \$9,000 pa to his account and Fred salary sacrifices a further \$5,000 pa.

As Fred's total superannuation benefits already exceed the tax-free threshold of \$129,751, benefits arising from the \$14,000 of future annual contributions will be subject to 15% tax at retirement, as well as the up-front 15% contributions tax. Although this is still better for many people than paying the top personal tax rate on the \$5,000 if it were taken as salary, contribution splitting will now allow Fred to largely avoid the 15% tax on benefits arising from future contributions.

Let's assume Fred's spouse, Helen, works part time and has very little in superannuation savings. On 1 July, Fred advises the Fund that he wants the benefits arising from contributions which were credited to his account during the previous financial year to be transferred to an account in Helen's name.

Helen's total superannuation benefits are still way below the tax-free threshold which is now \$136,239 (as at 1 July 2006). As long as her total benefits don't exceed the indexed tax-free threshold, the 15% **benefit** tax will not apply to her.

Fred has therefore enjoyed the benefit of tax savings through Salary Sacrifice but has now legitimately avoided the 15% benefit tax on the \$14,000 of contributions.

NOTE:

- **Contribution splitting only applies to benefits arising from contributions paid after 1 January 2006. It does not apply to previously accrued benefits.**
- **Contribution splitting will not be permitted if you are leaving Combined Fund.**
- **The amount transferable will be 85% of the employer/salary sacrifice contributions paid for the previous financial year ie. the net contribution after allowing for 15% contributions tax. 100% of personal after-tax contributions and co-contributions can be transferred.**
- **Transfer requests can be made once a year from 1 July onwards (in respect of contributions made in the previous financial year).**

REASONABLE BENEFIT LIMIT

Contribution splitting may also be helpful for members whose total superannuation benefits exceed or are likely to exceed the amounts laid down by the Government to receive concessional tax treatment.

WARNING

For members nearing retirement with a significant pre-83 benefit component, contribution splitting may not be as attractive. Refer to your financial adviser for details.

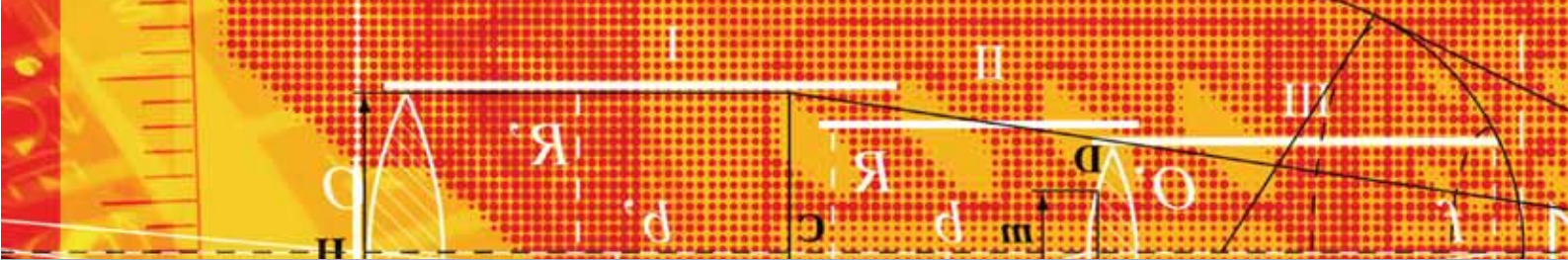
ASSET RICH BUT CASH POOR?

This information may not be of much interest to you now but it could be of vital interest to your parents.

People with little in the way of superannuation and other savings may be heavily reliant upon the Government age pension in retirement.

Given the age pension is only \$245 a week for singles and \$408 a week for couples, the retirement years are all too often a financial struggle. Getting by day to day often becomes the norm with little left for travel, eating out, a new car or doing something for the family.

The irony is many of these same people own a very valuable home. That is, they are 'asset rich but cash poor'.



The asset rich/cash poor problem is only likely to get worse as the baby-boomer generation heads into retirement. Currently, there are about 160 Australians turning 65 each day (58,500 in the year to 30 June 2004).

So – what can retirees do about it?

You can sell the family home and move into something cheaper but for many this is something that they simply don't want to think about. Besides, stamp duty, agents fees and other costs of moving can eat heavily into the money you are seeking to free-up by “downsizing”.

You can borrow against the value of your home but then you have to find the money to make the monthly loan repayments.

Or do you?

Using a Reverse Mortgage you can release the equity you have in your home without having to move out of it and without having to make loan repayments.

REVERSE MORTGAGES – A SOURCE OF MONEY IN RETIREMENT

A reverse mortgage involves borrowing against the value of your home. Reverse Mortgages are also known as Home Equity Release Products.

Reverse mortgages operate in the opposite way to a home loan. Instead of the loan sum diminishing as repayments are made, interest is applied to the loan amount **but no repayments are required so the loan sum increases**. As a result, your loan may end up representing a large part of the value of your home.

The lender allows you and your partner to stay in your house until you sell it, move out or die.

HOW DO REVERSE MORTGAGES WORK?

There are at least 10 lenders offering reverse mortgages aimed at homeowners aged 60 and over. The amount you can borrow is restricted by maximum loan limits and generally to between 10% and 50% of the total property value.

The older you are the more you're allowed to borrow.

You're not required to make any regular repayments but the impact of fees and interest means the loan amount grows over time. At current interest rates the amount you owe would double in less than 10 years.

Most reverse mortgages have a variable interest rate, usually about 0.5% to 1% higher than the rate for standard variable home loans. A few lenders offer a fixed rate which is usually

higher than the variable rates offered by the other lenders. A fixed rate gives you certainty but it has the disadvantage that significant fees may apply if you want to pay back the loan.

Application fees and ongoing fees apply. You usually receive a lump sum when you take out a reverse mortgage although some lenders also allow regular payments or a combination. Some allow you to draw down the amount in stages and most allow you to increase the loan at a later time for a reduced application fee.

Terms and conditions apply for all of the loans. For example, lenders may request that you have a valid will, get independent legal and/or financial advice and you may have to advise the lender if you want someone else to move in with you or undertake renovations. The property can't be left permanently vacant (periods vary between six and 12 months) and you need to have home insurance and maintain your property so that its condition doesn't deteriorate.

Reverse mortgages can allow you to **free up money** to maintain or increase your standard of living. You can use the money for example, to buy a new car, go on a holiday or make urgent repairs to your house. Alternatively, regular payments can be received to supplement your existing retirement income.

Reverse mortgages also allow you to keep your **financial independence** without the need to sell your house and relocate to a smaller residence.

EXCLUSIVE OFFER FOR COMBINED FUND MEMBERS AND THEIR FAMILIES

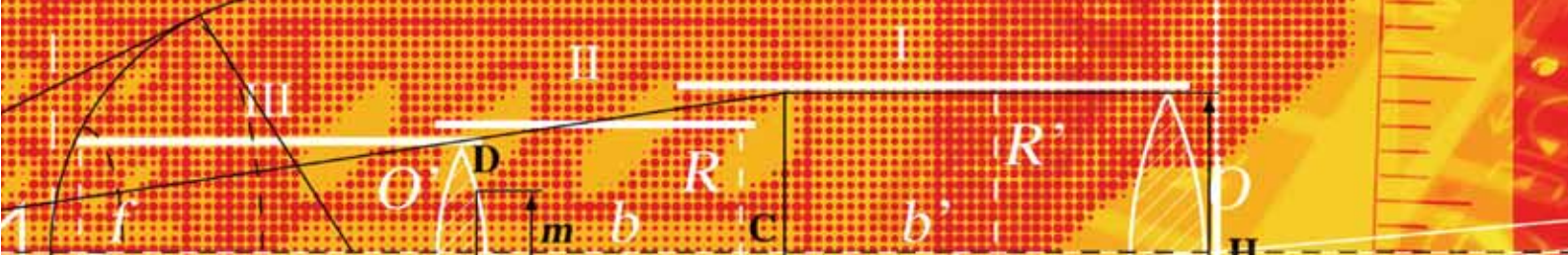
We are pleased to offer an exclusive arrangement with Australian Seniors Finance – a specialist in home equity release and a founding member of SEQUAL (the Senior Australians Equity Release Association of Lenders). Under this arrangement, Combined Fund members **and their families**:

- receive a \$100 discount on the establishment fee for the loan; and
- will be able to deal directly with accredited field staff of Australian Seniors Finance (ASF).

To receive the \$100 discount, an application must be submitted to ASF prior to 30 September 2006.

For more information, call 1300 889 338, visit www.seniorsfinance.com.au or complete and mail the coupon from the flyer enclosed with this newsletter.

This offer is also available to your parents or in-laws, so if they wish to take advantage of it they simply need to refer to your membership of the Combined Fund.



GOLD RATING AWARDED AGAIN!



Each year the independent ratings group, SuperRatings, conducts a comprehensive analysis of Australian superannuation funds to determine value for money.

For 2005, SuperRatings looked at 125 superannuation funds covering in excess of \$100 billion in superannuation savings on behalf of nearly 10 million member accounts.

Only 20% of all funds can be awarded a Gold Rating and, for the second year running, Combined Fund has won Gold!

Combined Fund was rated above benchmark in Investment, Advice, Insurance and Governance.

Member Investment Options – Unit Prices

The following are the respective unit prices and returns for each Investment Option as at 30 November 2005:

Investment Option	Unit Price \$	Returns – Increase (Decrease) %	
		30/11/05	30/11/2005
Australian Shares	2.28627	13.44	11.49
International Shares	1.00084	9.82	(3.30)
Fixed Interest	1.41479	5.80	5.82
Property	1.80812	6.65	9.69
Balanced	1.63720	9.34	6.80
Capital Stable	1.48873	7.00	6.00
Ethical Shares	1.50456	11.50	3.94
Cash	1.31945	4.15	4.12
Growth (available since 1 July 2005)	1.08188	8.19 (5 months)	N/A

December unit prices take longer than normal to calculate because 31 December is Combined Fund's financial year end.

Normal monthly unit prices are available by 15th of the next month.

See our website www.combinedfund.com.au for more details.

Index Competition

The winner of our "Pick the Index" competition was Carez Crnkovic of Flinders Christian Community College who was closest to the S&P/ASX300 Index as at 30 November 2005 (4627.2).

We received a record number of entries for the competition with predictions varying from a rather pessimistic 4282 up to Carez's prediction of 4664.

What do you think will happen to the Australian sharemarket between now and 31 March?

To predict the index as at 31 March 2006, complete the details below and fax this page before 28 February 2006 to the Fund Administrator on (03) 9640 0787.

Combined Fund S&P/ASX300 Index Competition

Name: _____

Employer: _____

Phone: _____

My estimate of the S&P/ASX 300 Index as at 31 March 2006 is:

The winner will receive a voucher for an all-inclusive "Dinner for Two" at a 5 star Restaurant of their choice and a one year subscription to the Australian Financial Review's new Smart Investor magazine.

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