

Welcome to the December 2007 edition of **IntheKnow** – Combined Fund’s newsletter that keeps you ‘in the know’ on superannuation matters and how to make the most of your superannuation benefits.

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- **DEATH AND DISABILITY INSURANCE – WHO NEEDS IT AND HOW MUCH SHOULD YOU HAVE?**
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## A QUICK QUIZ

**1. If you suffer a serious illness or accident and can’t work for several months, when will your salary stop?**

- in a few weeks
- in a few months
- in 2 years
- will continue to age 65

**2. If it’s so serious that you can *never* return to work, how will you manage financially?**

- total disaster
- will be OK for the first year
- will manage for a bit longer
- adequately covered

**3. If you die tomorrow, will someone suffer financially?**

- family home will be lost
- family will struggle
- family will manage OK with occasional financial problems
- no financial problems



## GETTING THE PRIORITIES RIGHT

For most of us, our first major purchase is a car. The second major purchase is usually a house. And – because they are valuable assets, we insure them. Well, at least, the prudent ones amongst us do.

It's all about priorities. If you have a valuable asset, you insure it against loss.

But wait a minute, how could you afford the car and the house in the first place? Simple – you earn an income which gives you purchasing power.

So – doesn't that really mean that your most valuable asset is you? If you can't work, your income generally stops (sooner or later) – putting at risk your financial well-being now as well as your plans for the future. Let's look at some priorities:

### PRIORITY NO. 1 – PROTECTING INCOME

A few of us have accumulated enough money to not have to work. However, for most of us, work is essential to provide the income we need.

Surely then, our top priority has to be ensuring that, if an illness or injury stops us from working, we can replace lost income.

#### Solution

Combined Fund offers **monthly income insurance** for total or temporary disablement.

Known as Salary Continuance or Income Protection Insurance, the benefit payable is 75% of your salary at the 1 January preceding your disability and is payable by monthly instalments. You have a choice of two options:

**OPTION 1:** a benefit payable up to age 65

**OPTION 2:** a benefit payable for up to a maximum of 2 years

A monthly income benefit payable to age 65 may be particularly important where you are the sole income earner. If you are unable to work due to illness or accident, you and/or the whole family may be placed under strain unless your income can be replaced with income protection payments.

The insured benefit becomes payable once you have been unable to work due to illness or injury for 3 months and once your claim is accepted by the Fund's insurer.

Some of you currently have 2-year cover to provide against short term disability and some of you have cover through to age 65 (providing against both short term and long term and even permanent disability). Some have chosen to have no income protection at all.

If you wish to take up this valuable insurance cover or to extend a 2-year benefit to cover longer term/permanent disabilities, please contact us on 1800 200 801 or by email at [super@combinedfund.com.au](mailto:super@combinedfund.com.au) for more details.

Note: Income protection cover is not available to casual employees or part-time employees who work less than 20 hours a week.

### Won't Work Cover, TAC and Government Benefits protect me?

Work Cover is fine if you're injured at work or become ill due to your work but most long term disabilities are not work-related.

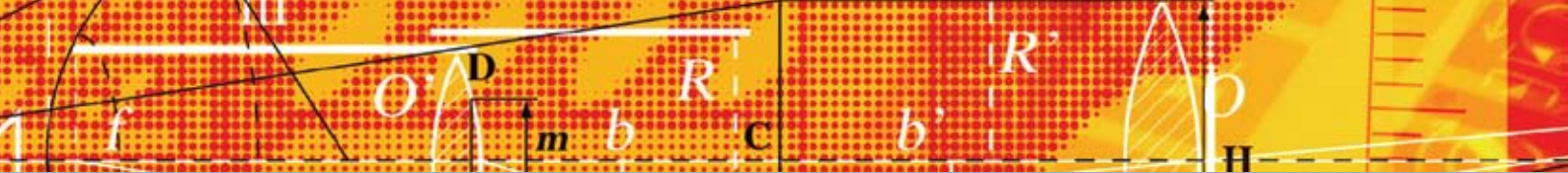
TAC benefits may help if you are seriously injured in a car accident but TAC's Income Support benefits are only payable for up to 18 months and impairment benefits are subject to fairly low limits based upon the degree of permanent disability.

The Government provides some disability benefits but their fortnightly Disability Support pension payments amount to less than \$14,000 a year.

### PRIORITY NO. 2 – DEATH COVER (LIFE INSURANCE)

Once you have protected your income adequately, you need to address the question – will someone suffer financially as a result of your death?

If the answer is no, then you may well ask – why have death cover at all? You may have no dependants or you may simply have accumulated sufficient money so that your death will not cause financial problems.



However, for many of us, death cover is essential because our death will create financial problems for those we leave behind. The appropriate amount of Death cover for you will depend on:

- your current liabilities (eg. mortgage, credit cards, personal loans);
- anticipated future expenses (eg. children's education and care); and
- general living expenses.

### A simple approach

One way of looking at it is to say – I don't want to leave my family with any debts. In that case, you simply:

- add up how much you owe on your mortgage, personal loans and credit cards;
- subtract from that how much you have in savings, super and other debt-free investments.

The figure you're left with is the basic amount of insurance cover you need.

That's fine and it ensures that you leave your family free of debt. But – what about giving your family some choices?

- Choices about the way they live.
- Choice for your spouse about working in the future and about a comfortable retirement.
- Choice of education for the kids.

Ultimately, the choices we give to those we leave behind largely revolve around money. So – an alternative to just covering debt is to also leave behind enough money to give your family future choices.

To assist in determining how much cover you may need, we have included a calculation sheet with this Newsletter.

### What next?

Your annual Fund benefit statement shows your current death benefit ie your account balance plus any insured benefit you may have. If you need to top it up, let us know and we can get the process started.

### PRIORITY NO. 3 – RETIREMENT PLANNING

Now, to plan for your retirement. Well – there's really no magic to it. You:

- start early (but it's never too late);
- contribute as much as you can (but at least 5% of salary); and
- contribute tax-effectively (salary sacrifice, co-contributions).

Your contributions, plus your employer's contributions, should put you well on the way to a comfortable retirement (particularly with the Government Age Pension as backup for older members).

However, that assumes that you are in the paid workforce throughout your working life.

If you've followed the first two priorities, you have your income protected against illness or injury and your family is protected if you die. But – if an injury or illness is so severe that you can never work again, how will you replace your employer's future contributions?

That's where Total and Permanent Disablement (TPD) insurance comes in. For a relatively small additional premium, TPD insurance of an amount up to your death cover can be provided. With that in place too, you are pretty well covered. Like the death cover, the TPD cover is payable as a lump sum and, because it is payable in addition to your income replacement insurance, it can be invested for your retirement and used to replace those employer super contributions which would have been made had you been able to continue working through to retirement.



## DEATH BENEFITS – WHO GETS THE MONEY?

If you die whilst a member of a super fund, your account balance is payable as well as any life insurance cover you may have in the Fund.

Death benefits from superannuation funds are generally only payable to your dependants (or to your estate if you have no dependants). Dependants do not have to be dependent upon you financially to be regarded as dependants. The following are dependants for superannuation purposes:

- Your spouse (including a de facto relationship).
- Your children (including adult, adopted and step-children).
- Any other persons who are substantially financially dependent on you (ie. they rely upon you for financial support).
- An Interdependent. This is a person with whom you live and have a close personal relationship. One of you must rely upon the other for financial support and one of you must provide the other with domestic support and personal care.

**Note: Your mother, father, sister, brother and other relatives and friends are NOT Dependants unless they rely upon you for financial support or meet the definition of an Interdependent.**

Trustees of superannuation funds have an absolute discretion in relation to the payment of death benefits. This means that, whilst they will be guided by any nomination of dependants you have made and will take into account the provisions of your Will (if you have one), they must also take into account your family circumstances at the time of your death.

In most cases, the circumstances are clear cut and benefit payments are made directly to a surviving spouse and/or children in accordance with the Death Benefit Distribution Form completed by the member.

However, from time to time, there are cases where a member's family circumstances have changed but the member has not since submitted a new nomination of dependants. Examples of where the Trustee may override a member's nomination of dependants may be where the member has married or had another child or children since completing the previous nomination but had not nominated his or her spouse or those children as dependants at the time of his or her death.

The Trustee determines how the death benefit is to be distributed and writes to all dependants specifying the proposed payment arrangements. If no objections are received within 28 days, the payment is made direct to the dependant(s).

If an objection is received, the matter is reviewed and can be taken to the Superannuation Complaints Tribunal if the objection can still not be satisfied.

In order to expedite the payment process, it is essential that your dependant nomination is kept up to date. A form is included with this newsletter for your completion and return if you wish to change your nomination or if you have not made a nomination.



## TAXATION

### INCOME PROTECTION (SALARY CONTINUANCE)

These Monthly benefit payments are regarded by the ATO as ongoing income and are, therefore, taxed as income. Tax is deducted before these payments are made to members.

### TOTAL AND PERMANENT DISABLEMENT (TPD) BENEFITS

Lump sum payments made to members before age 60 as a consequence of total and permanent disablement are taxed in a similar manner to other superannuation lump sum payments.

However, from 12 September 2007, payments made to terminally ill members will be tax free.

All benefits paid after age 60 have been tax-free since 1 July 2007.

### DEATH BENEFITS

Under new tax rules from 1 July 2007, superannuation benefits will be split into two tax components ie tax-free and taxable.

The rate of tax on the tax free component will always be nil. The rate of tax on the taxable component will vary depending upon who receives the benefit.

If you die, leaving a superannuation benefit to your spouse or a financial dependant, the whole amount is tax-free to the recipient.

**However, if you die leaving a superannuation benefit to an adult child (or children) who is not financially dependent upon you, the *taxable component* of that death benefit will be subject to at least 15% tax (plus Medicare Levy).**

This is the case even if you have attained age 60 (and could therefore have withdrawn the benefit tax-free if you had retired before you died).

There are two strategies which can be used to reduce this tax. They both tend to work best if you have attained age 60 and have left the service of an employer since then. However, they can be far more complex than the simplified summaries shown below and appropriate advice should be obtained before undertaking such strategies:

1. The "Death Bed" strategy. Under this strategy, you withdraw your superannuation benefit as a tax-free lump sum just before you die and give it to your adult children.
2. The "Re-contribution" strategy. Under this strategy, you withdraw some or all of your superannuation benefit as a lump sum and then re-contribute it to the Fund. By paying it back to the Fund as a personal contribution, it becomes a tax-free component. Contribution limits of \$150,000 and up to \$450,000 may restrict the full impact of this strategy in the short term.

### INSURANCE PREMIUMS

Arranging your insurance requirements through a superannuation fund can be better than arranging such insurance cover outside the fund:

- the premiums are deducted from your fund account so you don't have to find the money to pay them separately;
- the premiums are group discounted;
- premiums for death and total and permanent disablement cover held privately must be paid from after-tax salary. Premiums for superannuation insurance cover are effectively made from pre-tax income.

## MEMBER INVESTMENT OPTIONS – UNIT PRICES

The following are the respective Unit Prices and returns for each Investment Option as at 31 October 2007.

Investment Option	Unit Prices 31/10/07 \$	Returns – Increase(decrease)	
		Year to 31 October 2007 %	3 years to 31 October 2007 %
Australian Shares	3.44940	27.29	22.82
International Shares	1.17121	4.29	10.22
Fixed Interest	1.24996	-16.74	-1.74
Property	2.34536	15.62	12.66
Growth (80/20) Option (available since 1 July 2005)	1.38340	12.24	N/A
Balanced (70/30)	2.01137	9.38	13.12
Capital Stable (30/70)	1.58505	-1.90	5.42
SRI* (74/26)	1.97485	14.44	16.29
Cash	1.45098	5.40	4.92

\*The Sustainable Responsible Investment (SRI) option follows a balanced approach to investment and, with effect from 1 April 2006, replaced the former Ethical Shares option which had operated on a 100% allocation to shares.

The unit prices for Combined Fund Allocated pensions will be different to those shown above due to the more preferential tax treatment of pension investments.

See our website [www.combinedfund.com.au](http://www.combinedfund.com.au) for more details.

## INDEX COMPETITION

The winner of our last "Pick the Index" competition was Sandra Chapman from Caulfield Grammar School. Sandra's prediction was closest to the S&P/ASX300 Index of 6258.9 as at 31 August 2007.

Predictions varied from a low of 5922.3 up to a high of 6705.0.

What do you think will happen to the Australian sharemarket between now and 29 February 2008?

To predict the index as at 29 February 2008, complete the details below and fax this page by 31 January 2008 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 29 February 2008 is:

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

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