

KeyPlay Financial Services' 2018 Autumn Newsletter

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Hello and welcome to the 2018 Autumn edition of the KeyPlay Financial Services' Newsletter.

Financial Markets have continued to be kind to investors shrugging off an "official" Correction in the first week of February to bounce back and currently be sitting at just under recent high points.

I think the volatility in February was a "wake up call" for those that think the investment markets can continue on their "merry way" and is a reminder that the market trend will reverse – we just don't know when!

The message is to make sure that you attend our Progress Review meetings this year where we review the mix of your investments to ensure that they are in line with your nominated Risk Profile.

The Progress Review Sheets are attached to this Newsletter - so please take the time to complete them, nominate a suitable Review date and send the forms back to us.

Also note our Update Information Sessions that will be conducted in April and May (as detailed below). If you are interested please book in to attend. The Aged Care session in particular has historically been strongly attended.

And within the blink of an eye – the AFL Season 2018 is upon us and I am looking forward to seeing what the Blues can do (to try and wrench themselves off the bottom off the Ladder). And congratulations to the Tiger supporters who still appear to be roaring loudly after their great success last year.

Tony

PROGRESS REVIEWS:

Attached to this Newsletter is the 2018 Progress Review Checklist – which helps us to prepare for our Review meetings in the next few months.

Please update the information as necessary, nominate a suitable time on page 4 for your Annual Review meeting and then forward the form back to us.

We will then confirm the agreed time with you via email or mail. (Make sure we have your email address).

INFORMATION SESSIONS:

Our 2018 **KeyPlay Information Sessions** are set for the following Topics and dates.

Aged Care Update: Thursday 26th April 2018 @ 3PM in the KeyPlay Conference Room at 90 Main Road Ballarat.

Superannuation & Centrelink Update: Thursday 24th May 2018 @ 3PM also in the KeyPlay Conference Room.

If you would like to attend please RSVP to Laura on 5333 5519, via email to: reception@keyplay.com.au or on page 4 of the Progress Review Information Update form.

BANKING ROYAL COMMISSION:

The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry is underway and making headlines every other day.

Without doubt - there has been improper practices within the whole industry - that have tarnished the efforts of those honest people that work to genuinely help their clients across the country. Those that have done the wrong thing should be named and shamed and should never be allowed to work in the industry again. That would be my recommendation for those that have caused grief by putting their own interests above these of the people they were "allegedly helping".

However as with every facet of life - it is always the actions (or inactions) of the minority that ruin it for the majority. As a consequence, already we have seen both the Regulators and the industry itself implementing changes to increase the education and compliance levels on those providing advice and enshrining in law practices that ensure the clients' interests are always the number one priority.

To me (and the many others), that have always put the clients' needs first - it seems ridiculous that such action should have been required. (Actually, probably more with the changes, disappointing than ridiculous). However, if nothing else, the Royal Commission should help to restore some of the lost confidence in the professionals that remain in the industry and who do the right thing and help their clients without fear or favour.

I do have a fear though with the Royal Commission - that some people, who have made poor investment decisions, will try and blame the "Bank" or the "Industry" for their problems, and generate incorrect "bad press".

Already, a lady presented to the Commission to say that the home loan she had taken out - should never have been approved for her by the Bank - as she could not afford it and now she finds herself having the Bank sell the property from under her.

It may well be that the Bank approved a loan for her that ultimately she could not afford - but at the same time - didn't the borrower have some responsibility also, at the time of the application - to ensure that she would be able to make the loan repayments?

She was 50 years old when she took the loan out which had a 30 year term, however she only realised in recent times that she would be 80 if the loan ran its full term. Surely that is something that she could have realised at the application time and not just afterwards?

I am sure also that she approached the Bank for the loan and provided them with all the relevant information so as the Bank could make its decision. She would also have had to sign loan documentation which we always recommend - should not be signed without a second opinion.

I think we have to be careful not to just jump on the "bad news media bandwagon" and knock the Banks and the Financial industry when a loan

defaults - as surely there has to be some degree of personal responsibility when dealing with important matters such as loans.

Importantly also for this person, she should have sought professional financial advice to review the loan before signing on the dotted line. The cost of advice at that time may well have been the best money she ever spent - as she may well have been advised that the loan was too costly for her. (Easy in hindsight of course)!

The message here is that the Royal Commission demonstrates clearly why honest, caring and qualified Financial Advisers - like us at KeyPlay - have such an important role in the financial lives of people today.

Joke Corner:

A bloke was sitting in a bar one day and two really large women came in, talking in an interesting accent.

So he said, "Cool accent, are you two ladies from Ireland?" One of them snarled at him, "It's Wales, dumbbo!"

So he corrected himself, "Oh, right, so are you two whales from Ireland?"

That's about as far as he could remember!

FRANKING CREDIT REFUNDS:

Mr Shorten has announced that if he wins the next Federal Election, the Labor Party will be CANCELLING the Franking Credit Refunds that so many of our small, Centrelink clients benefit from each year. I find the announcement by Mr Shorten that he is targeting the "top end of town" and "the millionaires" through this action as ill-advised and not reflective of what is happening in the "real world".

There are many of our clients who receive the full or partial Age Pension payments and who may hold shares that they have had for some time. At the end of each tax year (30th June) for these people we are able to claim back from the Tax Office the tax that has already been paid on the dividends received in that financial year. The small refunds help our clients by boosting their bank accounts in the middle of the year - which then helps to pay the rates or other bills that are due. By no means are these people "millionaires" or living in the "top end of town".

A more sensible approach may have been for Mr Shorten to target those (for example), who have the maximum amount in their Superannuation Income Stream investments (which is currently \$1.6 million) per person. At least then the action would be seen to be targeting those that Mr Shorten intended. instead of the thousands of others who have been caught in the same net.

Also interestingly Mr Shorten has said that the public servant's Future Fund will be exempt from the new regulation if he is elected (which according to the AFR) received last year a tax refund of \$817 million. The Fund was created by Treasurer Peter Costello to make sure the country has enough money to pay public servants' super pensions. Previous governments thought the tax systems of the future would be able to cover future public servant pensions but Mr Costello's figuring said this liability to our civil servants was a ticking time bomb. "Cash payments for unclaimed dividend credits accounted for 24% of the Future Fund's total dividend income in 2017," the AFR reported.

So denying a Franking Credit Refund to someone that is retired, has a taxable income of below say \$29,000 to \$32,000, and who holds shares in an Australian company (such as a Bank, or Telstra or BHP), is something Mr Shorten would like to do. However, at the same time he will allow the Fund that makes sure the public servant's superannuation payouts can be met (albeit it does save the taxpayer in the long run) to still claim those eefunds. Just not sure it passes the "sniff test"?

Five major or primary risk factors for heart disease - Dr Ross Walker:

Dr Ross Walker is based in Lindfield on the upper north shore of Sydney. He provides a service in all aspects of echocardiography, focusing on stress echocardiography which he states is a well-accepted, accurate method for assessing heart disease, not involving irradiation or injections.

He has listed the 5 major primary factors for heart disease as:

- Some abnormality in blood fats and, in particular, cholesterol.
- High blood pressure which is typically a pressure consistently above 135/85. (Up to the age of 50, the lower pressure is more important but over the age of 50 the

higher pressure is typically more linked to cardiac risk).

- Cigarette smoking – the more you smoke, the more you are at risk.
- Diabetes, or a tendency to diabetes known as insulin resistance, which is closely aligned with metabolic syndrome.
- Having a family member who has some form of cardiovascular disease typically before the age of 60.

Importantly, Dr Walker also advises that a recent study of 14,000 people over the age of 20, over a 12 year period of follow up, has detected another vitally important risk factor for heart disease. It appears that **insufficient sleep** is probably as damaging to the cardiovascular system as cigarette smoking.

In this study the researchers recognised four traditionally healthy lifestyle behaviours, i.e. a healthy diet, regular exercise, drinking alcohol in moderation and not smoking and found that those who practise all four of these behaviours have a 57% lower risk of cardiovascular disease and a 67% lower risk of dying from a cardiac event.

If you have seven hours or more quality sleep a night, this boosted the overall protective benefit, leading to a 65% lower risk of cardiovascular disease and a staggering 83% lower risk of fatal cardiac events.

Good quality sleep rejuvenates the body for the next day by allowing the vital organs, including the heart and blood vessels to slow down and have a rest.

Therefore, the importance of healthy sleep is paramount - the hard part though is to be able to achieve it!

"Trade War" concerns ease:

Over the past couple of weeks, concerns over a potential trade war eased as rhetoric from the White House became less aggressive. The announcements excluded key trade partners Mexico and Canada from the steel and aluminium tariffs (and Australia may well be on that List also).

In addition, a number of US trade partners, including Brazil, South Korea and Japan, are said to be considering applying for exemption from the levy. The EU also said it was counting on

exclusion from the metal tariffs. Against this still-problematic backdrop, investors do appear to be more comfortable with any potential impact from the Trump administration's approach, barring any immediate escalation.

Looking ahead, the tariffs' impact on the US trade relationship with China will be important. China stated it was strongly opposed to the imposition of tariffs and would take effective measures to protect its rights.

As we know nothing is certain and we may well see further volatility on markets over tariffs being imposed by the US.

AUSTRALIAN ECONOMY IS STRONG:

Industry commentator - Peter Switzer has advised that the Organisation for Economic Cooperation and Development has given the Australian economy the big thumbs up.

The Paris-based "economic think tank" has agreed with the Reserve Bank and Treasury, predicting Australia should grow by 3% this year and next year. And importantly, 3% is the magic number for economic growth, where historically jobs are created. The bigger the growth jump above 3%, the bigger the jobs jump, so this is a good news message for businesses, consumers, job-hunters and a struggling Malcolm Turnbull.

Mr Turnbull really needs to capitalise on this great economic setting for the next election and he should use knowledge learned from legends.

Peter says that "success leaves clues", so if he wanted to be a better stock market investor he'd learn from Warren Buffett. If he wanted to build a business brand then Richard Branson or Frank Lowy, who both started small and became huge, would be great role models to learn from and in politics Malcolm could do worse than to study the ABC documentary on Bob Hawke".

Importantly he believes, the PM really needs to embrace Bob's love affair with the Australian people. Like Bob, the Australian people (to steal a US term of endearment) like one thing about Malcolm and that's his brain. Who really wants to be led by a dope? We want our leader to be respected overseas but we want him to be respected even more at home. And that's the piece Malcolm has to work on over 2018. With the Australian economy tipped to pick up growth from 2.1% to 3% this year and close to

400,000 jobs expected to be created, Mr Turnbull has to step up or it will be Prime Minister Shorten we'll be dealing with in 2019. Mr Shorten has drawn battle lines to go after the economically well off, even if they have been former working class strugglers - who have worked and saved their way to a comfortable life in retirement. And that seems harsh.

His crackdown on negative gearing, the capital gains tax discount and tax refunds to lots of retirees who invest in stocks, shows he's worked out who might not vote for him and he's gone after them. Meanwhile, he's well and truly courting those who are a good chance to be Labor lovers. It may be clever politics — based on the classic divide and rule strategy — but it's divisive. And that could be Mr Turnbull's opportunity. Peter believes that he has to try to be like Mr Hawke who was the master of inclusiveness. He has got a year to get out amongst his "fellow Australians", as Bob would often say, and not just sell himself, but like Bob, he has to love his potential followers.

Joke Corner:

A new patient was quite upset when the doctor's nurse led him to a small, curtained cubicle and told him to undress. "But I only want the doctor to look at an ingrown toenail!" he protested. "Our rule is that everyone must undress," replied the nurse. "That's a stupid rule," grumbled the patient, "making me undress just to look at my toe." "That's nothing," growled a voice from the next cubicle. "I just came to fix the phones!"

MARKET UPDATE:

Fund Manager Investor's Mutual advise that the significant increase in volatility and the pull back in global markets (that we saw in February in particular), was in their opinion well overdue, although it has to be kept in perspective of the strong rises many markets recorded over the preceding 12 months.

While the direction of world growth remains positive, it remains a challenging environment for many companies to grow their earnings given the intensely competitive nature of most sectors.

With US interest rates set to increase further in the near future and with the European Central Bank (ECB) due to slow or stop its Quantitative

Easing (QE) policy some time in 2018, their view is that they remain cautious. However, they will continue to use weakness in good quality industrial names to put some of the Funds' cash holdings to work, (which means that when the down sell off days come and make the front pages of the paper - Investor's Mutual will be looking to buy quality companies that have fallen in price and become more attractive).

As Warren Buffet says: *"We simply attempt to be fearful when others are greedy and to be greedy only when others are fearful"*.

WATCH OUT FOR SCAMMERS:

Scammers target consumers with a range of schemes that can be hard to spot.

Consumer Affairs Victoria provide the following tips for people to protect themselves from those who would like to relieve you of your Cash. Take note:

- Be wary of online sellers offering goods and well-known brands at extremely low prices. (Too good to be true – it usually is)!
 - Do not EVER provide an up-front payment to a stranger via money order or wire transfer.
 - When selling items online, do not follow the links in a payment notification email to check whether the payment has arrived - log into your account directly.
 - Online dating is a huge area for scammers. Never send money to someone you have never met, even if you have spoken to them or received gifts.
 - Be wary of unsolicited emails, phone calls or letters saying you have unclaimed funds or are owed money (You won't have).
 - Do not EVER let anyone pressure you into making quick investment decisions.
 - Never send money or bank details to claim a prize. NEVER!
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Age Pension news 1. - Removal of the Energy Supplement:

The Government currently has a measure in parliament to cease the payment of the Energy Supplement for those in receipt of the Age Pension. The measure was introduced on 31 May 2017 but is yet to become law.

Currently, the Energy Supplement is a non-indexed payment of \$14.10 p.f. for singles and \$10.60 p.f. for couples each. If passed, new pensioners would be subject to an Age Pension reduced by these amounts.

(Note that separate legislation has already passed which ceases the energy supplement for Family Tax Benefit and Commonwealth Seniors Health Card holders who first began receiving their respective benefit from 20 September 2016).

Age Pension news 2. - Reduction for Overseas Pensioners:

Another proposal looks to cease the payment of the pension supplement basic amount after six weeks overseas and stops the payment immediately for permanent departures from Australia. These amendments apply to all Age Pension recipients overseas before, on or after commencement of this measure. This change would be implemented on the first 1 January, 1 April, 1 July or 1 September after the relevant Bill receives Royal Assent.

Super and retirement news - "Downsizer contributions":

From the 1st July 2018, superannuation contribution opportunities - for those aged 65 or over - will expand to include what will be known as "downsizer contributions". These contributions enable eligible individuals to contribute up to \$300,000 from the sale of one eligible property to super within 90 days of change of ownership, without needing to satisfy the work test or contribution caps.

An eligible property must have been owned by the individual, their spouse or their former spouse for 10 continuous years just before the sale of the property. Additionally, the individual must satisfy all the requirements (apart from the fact that their spouse owned the property) to qualify for a full or part capital gains tax (CGT) exemption for that property.

This strategy is designed to encourage older Australians to sell their larger properties and to downsize to smaller properties - with the "attraction" of being able to contribute some or all of the proceeds - into superannuation to create potential tax free income streams - which would otherwise not be possible. This strategy also sees

the possibility of more bigger properties on the market for those looking to buy. So there is a flow on effect.

Taxation News: Increase of Medicare Levy to 2.5%:

To cover the cost of the National Disability Scheme (NDIS), the Government is proposing to increase the Medicare Levy from 2% to 2.5% from 1 July 2019.

Many retirees may not be affected by this, as the Medicare Levy only becomes payable for a single pensioner with taxable income above \$34,244 p.a. or for a couple with taxable income above \$47,670 p.a. (thresholds for the 2016-17 financial year). However, retirees who go back to work, have a high non-super retirement income or anticipate a future high income year, for example, due to selling an investment property with capital gains, may be affected if this measure becomes law.

Latest Age Pension rates (From 20th March 2018):

The Age Pension payments have indexed as at 20th March 2018 and the new payment amounts have been announced. (Age Pension rates are indexed twice-yearly, as at the 20th March and the 20th September).

The new Age Pension payments detailed below will be effective from 20 March 2018, (and applicable until 19 September 2018). (The rates applicable from 20 September 2017 until 19 March 2018 are also listed).

A single person eligible for the FULL Age Pension can expect an overall increase of \$13.20 per fortnight taking the total annual income (including Pension Supplement and Energy Supplement) to around \$23,598.

A couple eligible for the FULL Age Pension can expect an overall increase of \$9.90 per fortnight taking the combined annual income (including Pension Supplement and Energy Supplement) to around \$35,573.

Note: As announced in the May 2016 Federal Budget, since 20 September 2016, the Energy Supplement is not available to new Age Pensioners, although existing Age Pensioners as at 19 September 2016, continue to receive the Energy Supplement.

Age Pension rates – Single (per fortnight)

	From 20 March 2018	From 20 September 2017	Increase
Base	\$826.20	\$814.00	\$12.20 pf
Pension Supplement	\$67.30	\$66.30	\$1.00 pf
Energy Supplement	\$14.10	\$14.10	\$0.00 pf
Total	\$907.60	\$894.40	\$13.20 pf

Age Pension rates – Couple (each member of couple, per fortnight)

	From 20 March 2018	From 20 September 2017	Increase
Base	\$622.80	\$613.60	\$9.20 pf
Pension Supplement	\$50.70	\$50.00	\$0.70 pf
Energy Supplement	\$10.60	\$10.60	\$0.00 pf
Total	\$684.10	\$674.20	\$9.90 pf

Source: Centrelink

Until Next time....Keep safe.

Tony

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