

1

2

3

4

The Australian Journal of

# Financial Planning



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## Contents

From the editor	3
Summaries	5

## Perspectives

<b>Applied Financial Planning</b>	15
Guide to Department of Veterans Affairs payments. NATALIE BOUQUET	15
Applied financial planning approaches to TAPs. SCOT ANDREWS	19
<b>Practice Management</b>	25
Solving the SoA dilemma. SALLY MANION	25
<b>Superannuation and Retirement Planning</b>	29
Examining the business of self managed superannuation funds. KATE ANDERSON	29
Rearranging allocated pensions – some key pointers and developments. DAVID SHIRLOW	33
Superannuation contribution and access (cashing) rules. JOHN CIACCIARELLI	37
Would your client benefit from a defined benefit pension? KEVIN SMITH	41
Planning for retirement income streams. KEAT CHEW	45
<b>Risk Management and Insurance</b>	47
The forgotten structure – insurance and friendly bonds. SAM RUBIN	47
<b>Taxation Planning and Estate Planning</b>	51
Tax advice and financial planners. RAY NEALE & LEIGH SMITH	51
Super estate planning. SAM WALL	55
<b>CPD Program questions</b>	59
CPD Program answers sheet	63
<b>The Little Black Book</b>	65
Directory of investment managers and industry funds	65

1

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## Financial Standard

For the wealth management professional

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Australian Journal  
of  
Financial Planning

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# From the editor

By Christopher Page

Managing Director, Financial Standard



Welcome to the first edition of *The Australian Journal of Financial Planning*.

I am proud to present the latest addition to Financial Standard's stable of publications catering for today's wealth management professional.

The aim of this journal is to become the definitive source of reference material and case studies on the issues facing the financial planning and advice community.

From legislative challenges to technological innovations, it has become imperative for financial planners to keep up-to-date with the latest research and trends in and out of their field to successfully address their clients' needs.

Gone are the days when financial planning was a mere cottage industry. Over the past 20 years it has matured to become a vital cog in resolving the nation's chronic under-insurance and financial apathy.

To that end, the time is ripe for Australia's financial planners to have a professional journal to call their own, providing in-depth, thought-provoking and practical information that will build on their knowledge and give them a critical edge over their competitors.

Superannuation and retirement planning, for example, are under a heavy spotlight after the "choice of fund" legislation was introduced last year.

This places the added responsibility on a financial adviser's shoulders of being well versed with the choices available to their clients.

It is answering the critical questions and filling the information gap that compelled Financial Standard to establish this journal with content written by leading authorities in the field including academics, practitioners and international experts.

In industry-speak, financial planners are witnessing the "retailisation of the traditional wholesale market" and the "institutionalisation of the traditional retail market".

What does this mean? Broadly speaking, the blurring of the lines between financial products available to mums and dads and to institutions means that financial advisers need to strengthen their knowledge base and expertise.

As the saying goes, no man is an island. Financial planners are not immune to the gamut of influences affecting fund managers, life companies, banks, superannuation funds, asset consultants, research houses and other service providers.

If anything, you, as a financial planner, act as a conduit between these players and the end-users, your client, which makes your role in grasping the finer aspects of investing for the present and the future more paramount than ever before.

The chapters of this journal that will complement the *Financial Standard* newspaper include:

- Applied Financial Planning
- Consumer Credit, Debt Planning and Management
- Practice Management
- Superannuation and Retirement Planning
- Risk Management and Insurance
- Taxation Planning and Estate Planning
- Professional Reading Program – Developing Excellence.

These topics will be explored in the journal, leaving the *Financial Standard* to deliver timely trade articles and investment analysis.

Your feedback and suggestions for topics to be researched and presented here are most welcome. We want to make this publication – issued four times a year – an integral part in the exchange of ideas and information in the financial planning and advice community.

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# Perspectives

<b>APPLIED FINANCIAL PLANNING</b>	<b>15</b>
Guide to Department of Veterans' Affairs payments	15
Applied financial planning approaches to TAPs	19
<b>PRACTICE MANAGEMENT</b>	<b>25</b>
Solving the SoA dilemma	25
<b>SUPERANNUATION AND RETIREMENT PLANNING</b>	<b>29</b>
Examining the business of self managed superannuation funds	29
Rearranging allocated pensions – some key pointers and developments	33
Superannuation contribution and access (cashing) rules	37
Would your client benefit from a defined benefit pension?	41
Planning for retirement income streams	45
<b>RISK MANAGEMENT AND INSURANCE</b>	<b>47</b>
The forgotten structure – insurance and friendly society bonds	47
<b>TAXATION PLANNING AND ESTATE PLANNING</b>	<b>51</b>
Tax advice and financial planners	51
Super estate planning	55
<b>CPD PROGRAM QUESTIONS</b>	<b>59</b>
CPD Program answers sheet	63

# Guide to Department of Veterans' Affairs payments

By Nathalie Bouquet



Nathalie is a technical services manager with the Challenger technical team. Her qualifications include a Bachelor of Business and a Graduate Diploma of Financial Planning with the Securities Institute.

Nathalie has been working in superannuation for over ten years in varying roles and has been specialising in research and providing technical advice for the past five years.

Prior to joining Challenger in 2003, Nathalie worked for ipac Securities for five years in various roles, including technical services and as the team leader of the pensions and superannuation area.

She actively participates in the IFSA Retirement Savings and Incomes forum, regularly writes technical documents aimed at providing useable, value-add strategies and legislative analysis, and is an experienced presenter in the areas of superannuation, tax and social security.

A number of your clients may be entitled to a payment from the Department of Veterans' Affairs (DVA), as opposed to Centrelink. There are numerous income support payments and allowances payable by DVA, each with their own set of qualification rules and thresholds.

This article provides you with a snapshot of the more common income support payments paid by DVA. As this is a complex area, it is important to liaise with DVA when determining your client's eligibility.

## SERVICE PENSIONS

Service pensions are means tested pensions paid to eligible veterans on the grounds of age or invalidity. They may also be paid to eligible partners including widows and widowers. An eligible veteran is a person who:

- has "qualifying service"\* and
- meets residency requirements (generally must have been a resident for 10 years), and
- is of service pension age (see below), or
- is permanently blind or permanently unable to work.

The service pension cannot be received in addition to a Centrelink pension or benefit (except family tax benefit). The income and assets tests thresholds and the rate of pension for the various types of service pensions are the same as the Centrelink age pension.

## AGE SERVICE PENSION

To be eligible for an age service pension the veteran must be of service pension age. The age service pension is available to veterans five years earlier than the Centrelink age pension in recognition of the effects war can have on ageing.

Pension age for a male veteran who has qualifying service is 60. Pension age for a female veteran with qualifying service is currently 57 and is being raised six months every two years so that by 1 July 2013, the eligibility age for females will also be 60.

The table below shows pension age for females who have qualifying service or are receiving an income support supplement (ISS):

Date of birth	Qualify at	Date of birth	Qualify at
1 July 1943 to 31 December 1944	56.5	1 July 1949 to 31 December 1950	58.5
1 January 1945 to 30 June 1946	57	1 January 1951 to 30 June 1952	59
1 July 1946 to 31 December 1947	57.5	1 July 1952 to 31 December 1953	59.5
1 January 1948 to 30 June 1949	58	1 January 1954 and later	60

\* The definition of qualifying service differs depending on the conflict the individual has served in. An Application to Determine Qualifying Service by a Veteran or Mariner must be lodged with DVA to determine qualifying service (Refer DVA Facts IS56).

**IMPORTANT:** Pension age for a person who does not have any qualifying service is the same as for Centrelink. That is, pension age for a male non-veteran is 65 and pension age for a female non-veteran starts at 61 and rises to 65 (currently 62). There are circumstances under which a non-veteran will claim an income support payment from DVA as opposed to Centrelink, such as where their spouse is receiving a DVA pension. These recipients will not qualify for the earlier pension age.

## INVALIDITY SERVICE PENSION

This pension is payable to veterans who are permanently incapacitated for work. It may be granted at any age up to the age of 65 and the incapacity does not need to relate to war service.

Permanently incapacitated for work is defined as:

- permanently blind in both eyes, or
- in receipt of the special rate of disability pension – totally and permanently incapacitated (T&PI), or
- has disabilities that permanently prevents them from working\*.

**TIP:** When a person on an invalidity service pension turns service pension age, they become eligible for the age service pension. It may be more advantageous to remain on the invalidity pension, as it is not subject to income tax whereas the age service pension is taxable. Once the individual turns Centrelink age pension age, however, they are no longer eligible for the invalidity service pension and must be paid the age service pension. This means their pension will become taxable at this point.

## PARTNER SERVICE PENSION

The partner service pension may be paid to partners who are:

- legally married to and living with a veteran or living in marriage like (de facto) relationship with a veteran, and
- the veteran is receiving or eligible to receive the service pension.

To be eligible the partner must:

- be at least 50 years of age, or
- have dependant children, or
- the veteran receives the T&PI disability pension, or
- the veteran is receiving or eligible to receive a special disability pension (SRDP) under the Military Rehabilitation Compensation Act 2004 (MCRA).

Former partners and widows(ers) may also be eligible for the partner service pension. Please refer to DVA Facts IS45 for detail.

**TIP:** Individuals who qualify for the partner service pension will in many cases not have qualifying service and therefore will be subject to Centrelink age pension age requisites. Though a partner may qualify for this pension from age 50, their superannuation benefits will not count as an asset until they turn pension age which is currently 65 for a male and 62 for a female without qualifying service.

\* Additional criteria need to be satisfied to determine if a person is considered permanently incapacitated. There is a rating assessment system that applies and the incapacity alone must prevent the person from working for periods of more than eight hours per week. As this is a complex area, you will need to discuss this with DVA.

## DISABILITY PENSIONS

Disability pensions are paid to individuals who have injuries or diseases caused or aggravated by war or defence service on behalf of Australia. These injuries and diseases are known as 'accepted disabilities' and are determined by a claims assessor who examines evidence such as the individual's service and medical history.

There are four categories of disability pension payable:

- General rate – paid according to the level of incapacity in 10 per cent multiples up to the 100 per cent rate (10 per cent rate is currently \$30 and the maximum rate \$300).
- Extreme disablement adjustment (EDA) – paid in respect of extreme incapacity to veterans who have reached 65 years of age and are not eligible to receive a special or intermediate rate of pension.
- Intermediate rate – paid to veterans whose incapacity is so great that it alone prevents the individual undertaking employment for more than 20 hours per week.
- Special rate (totally and permanently incapacitated – T&PI, temporarily totally incapacitated – TTI, and blinded) – paid to veterans whose incapacity is so great that it alone prevents the individual undertaking employment for more than eight hours per week or who are blind in both eyes.

The rate at which the disability pension is paid is based upon the level of incapacity suffered. Generally the greater the incapacity suffered the higher the pension received. Please refer to DVA Facts IS30 for the various rates payable.

Disability pensions are not subject to an income or assets test and are not taxed. They can be received in addition to the service pension and are not counted as income for the service pension income test.

There are a number of fact sheets on the DVA website that outline how the disability pension works and the rates payable. Refer to DP01, DP28, DP29 and DP30 (this list is not exhaustive). It is important to discuss any issues with DVA as each case is looked at individually.

## WAR WIDOW'S/WIDOWER'S PENSION

This pension is paid to compensate widows and widowers of veterans who have died as a result of war service or eligible defence service. A person who was not legally married to the veteran but in a marriage-like relationship may also be eligible. It may be payable at any age.

It is not a means tested pension and is non-taxable, with no requirement to declare the income in a tax return. The current fortnightly pension rate is \$501.30 made up of an indexed component of \$476.30 and non-indexed component of \$25.

War widows(ers) may be entitled to an income support supplement (ISS), which is a means tested pension that provides regular additional income.

## INCOME SUPPORT SUPPLEMENT (ISS)

The ISS is an additional payment payable to eligible war widows and widowers with limited means. To be eligible the war widow/widower must be:

- of qualifying age (which is 60 for males and 57 for females), or
- permanently blind or permanently incapacitated for work, or
- have dependant children, or
- be the partner of a person receiving an income support pension from DVA or Centrelink.

The payment is income and assets tested, though the thresholds are different to the service and Centrelink age pension. Please refer to DVA Facts IS30 for the relevant thresholds. The war widows/widowers pension is included as income when calculating the ISS income test.

The maximum amount payable to both singles and members of a couple is currently \$141.60 – known as the ceiling rate – and this amount is adjusted twice yearly in line with CPI (March and September).

## OTHER TIPS

- The pensioner concession card (PCC) is issued by DVA to all service pensioners and war widows/widowers receiving an ISS. This ensures that all PCC holders are subject to a means test. The PCC entitles the cardholder to the same concessions as the PCC issued by Centrelink (ie pharmaceutical benefits, travel concessions and discounts on certain services and rates).
- In order to qualify for the lower basic daily care fee (currently \$27.86) in an aged care facility, an individual on a war widow's pension must hold a PCC in addition to a DVA treatment card.

## DVA PENSION SUMMARY

Pension type	Means tested	Max fortnightly rate	Taxable																														
Age service pension	Yes*	Singles \$476.30 Couples (each) \$397.70	Yes																														
Invalidity service pension	Yes*	Pharmaceutical Allowance \$5.80	No – until person reaches age pension age**																														
Partner service pension	Yes*		Yes – unless partner is receiving invalidity pension and both are under age pension age**																														
War widows pension	No	\$501.30	No																														
Income support supplement (ISS)	Assets tested <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th></th> <th>For full ISS</th> <th>Disqualifying limits</th> </tr> </thead> <tbody> <tr> <td colspan="3">Homeowner</td> </tr> <tr> <td>Singles</td> <td>\$264,500</td> <td>\$312,000</td> </tr> <tr> <td>Couples (combined)</td> <td>\$388,000</td> <td>\$483,000</td> </tr> <tr> <td colspan="3">Non-homeowner</td> </tr> <tr> <td>Singles</td> <td>\$375,000</td> <td>\$422,500</td> </tr> <tr> <td>Couples (combined)</td> <td>\$498,500</td> <td>\$593,500</td> </tr> <tr> <td colspan="3">Income test (per fortnight)</td> </tr> <tr> <td>Single</td> <td>\$958.75</td> <td>\$1,312.75</td> </tr> <tr> <td>Couples</td> <td>\$1,496.50</td> <td>\$2,204.50</td> </tr> </tbody> </table>		For full ISS	Disqualifying limits	Homeowner			Singles	\$264,500	\$312,000	Couples (combined)	\$388,000	\$483,000	Non-homeowner			Singles	\$375,000	\$422,500	Couples (combined)	\$498,500	\$593,500	Income test (per fortnight)			Single	\$958.75	\$1,312.75	Couples	\$1,496.50	\$2,204.50	\$141.60	Yes – unless paid on grounds of invalidity and not age pension age
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Single	\$958.75	\$1,312.75																															
Couples	\$1,496.50	\$2,204.50																															
Disability pension	No	Depends on extent of disability Special rate: \$798.80 Intermediate rate: \$550.00 EDA: \$452.40 General rate: 10–100% 10% \$30 100% \$300	No																														

\* Same thresholds as for the Centrelink Age Pension.

\*\* Age pension age refers to older pension age of 65 for males and currently 62 for females.