

# Your FINANCIAL



MARCH 2006

## Superannuation/Contribution Splitting

The long awaited contribution splitting legislation has now been passed and comes into affect for contributions made after the 1st of January 2006. Contribution splitting allows individuals to split certain superannuation contributions to their spouse's superannuation account.

The benefit of this legislation is that it allows families to have access to two eligible termination payment low rate thresholds (currently \$129,751) and two reasonable benefits limits (RBL).

That means you could potentially access 2 lots of \$129,751 TAX FREE!

The maximum splittable amount for any financial year is 85% of taxed splittable contributions (ie net amount after contributions tax of 15%) and 100% of untaxed splittable contributions. In less bureaucratic English, 100% of contributions after tax can be split.

Applications to split superannuation contributions are to be made in the following financial year ie: between 1 July and 30 June in the financial year following the end of the financial year in which the contributions were made.

### Example

Jack & Jane both aged 52 have superannuation with MAP. Jack's balance in his superannuation account is \$600,000 and Jane's is \$100,000. Jack is self-employed and contributes \$50,000 to his superannuation each financial year. Jane also works and she receives superannuation support of \$5,000.

Jack is not too far away from his lump sum RBL and they would like if possible to build up Jane's superannuation. They decide to implement the contribution splitting on Jack's contribution.

As Jack is self employed, he can claim the first \$5,000 plus 75% of contributions up to his age based limit. Contribution tax of 15% on Jack's contribution is \$5,812.50 and this is deducted from Jack's account as normal.

1st \$5,000 x 15%	\$750
75% of \$45,000 x 15%	\$5,062.50

His contribution after tax is \$44,187.50 (\$50,000 - \$5,812.50).  
Jack can split (ie transfer to Jane) any amount up to \$44,187.50.

### Rules in relation to the receiving spouse?

There are specific rules in relation to eligibility for the receiving spouse. In order for contribution splitting to be allowed the receiving spouse must be:

- under age 65
- if aged over 55 they must be working

Do all superannuation funds offer contribution splitting?

The provision of contribution splitting is voluntary which means that each superannuation fund will decide whether or not it will offer splitting to its members.

MAP will be offering this service to our members.

### Will I be able to do contribution splitting to another superannuation fund apart from MAP?

Although MAP will be offering contribution splitting, at this stage the contribution will need to be split into another MAP account. For example, if Jane's superannuation was held with another superannuation fund we would not offer Jack the ability to do the contribution split to Jane's fund. We would require Jane to open up a superannuation account at MAP to facilitate this contribution split.

## Conclusion

MAP will keep you up to date in our next newsletter on what will be required from you if you wish to implement contribution splitting.

In the meantime should you have any queries in relation to the above article or would like to find out if this is suitable to your situation, please don't hesitate to contact MAP and speak with one of our Financial Consultants.

## Introducing

Anthony Hurford was appointed as the Business Development Manager for MAP Funds Management in December 2005. Anthony has been in the superannuation industry for more than 10 years and was the Business Development Manager for Intrust Super fund for 5 years. "Intrust was an excellent opportunity to gain an abundance of experience in growing smaller super funds, on a large scale. We were a \$220 million fund when I started, and reached our goal of \$500 million FUM by 2005 - 1 year ahead of schedule. I believe growth comes from providing your clients with the highest level of service while offering a range of competitive and desirable products. Keep your eyes out for an amazing insurance offer to all MAP members coming soon! I'm very much looking forward to the next few years in helping to build MAP to it's full potential"

*Please join us in welcoming Anthony as a member of the MAP team!*

## MAP gets its APRA licence

Approximately 2 years ago, APRA\* announced that all superannuation fund trustees which it regulated would need to apply for, and be granted, a new form of licence prior to 30 June 2006. The licensing process involves extensive scrutiny of the adequacy of trustee processes and expertise over a period of several months.

APRA estimates that 1300 funds Australia wide will need to either be granted a licence or close prior to 30 June 2006. Based on the number of licences issued to date, they expect that about 800 smaller funds will close.

MAP was issued with licence number 70 in January. As at 17 February 06, (APRA closing date) there were 324 applications lodged with only 93 issued so far.

\* Australian Prudential Regulation Authority, the government body that oversees superannuation funds.

# The good times continue . . . but for how long?

Returns continue to be good, but with markets starting to appear fully valued in some asset classes the importance of a diversified strategy is paramount. The only protection against the unforeseen is to have a good spread of investment assets, and this is what MAP's multi sector pools provide for you. While we're not expecting a market crash, we are expecting returns to moderate from current high levels.

The main themes in the global share markets over the half year were further upgrades to resource stocks on the back of increasing gold/metals prices. Copper in particular has been hitting new highs. In total, the Australian shares, International Shares and Listed Property asset classes provided returns in the 10 – 15% range for the six months to 31 December 2005 whereas Cash and Fixed Interest have been relatively steady and provided only moderate returns.

## MAP Returns

The returns for MAP's Pools were above that of our defined competitors (see table) for all pools over one, two, three and five year periods to 31 December 2005. Independently produced surveys (Mercers) are only available for the Capital Stable and Balanced Pools. These show that we have produced top quartile performance over all these time periods for these two pools.

## MAP Performance (after tax & fees) vs Market Performance Period Ending 31 December, 2005

POOLS	% 3 Mths	%PA 1 Year	%PA 2 Years	%PA 3 Years	%PA 5 Years
<b>CASH</b>					
MAP	1.2	5.3	5.2	4.8	4.6
MARKET	1.1	4.5	4.4	4.2	4.0
VARIANCE	0.1	0.9	0.8	0.6	0.6
<b>AUSTRALIAN EQUITIES</b>					
MAP	3.1	21.9			
MARKET	3.2	20.7			
VARIANCE	(0.1)	1.2			
<b>INTERNATIONAL EQUITIES</b>					
MAP	6.0	15.4			
MARKET	6.4	14.2			
VARIANCE	(0.4)	1.2			
<b>PROPERTY</b>					
MAP	4.9	12.1			
MARKET	5.7	10.1			
VARIANCE	(0.8)	2.0			
<b>CAPITAL STABLE</b>					
MAP	2.1	8.8	9.4	7.7	6.0
MARKET	2.1	8.1		7.1	4.9
VARIANCE	(0.0)	0.7		0.7	1.1
<b>BALANCED</b>					
MAP	3.5	14.9	15.4	12.6	6.9
MARKET	3.6	13.8		11.8	6.2
VARIANCE	(0.1)	1.1		0.8	0.7
<b>GROWTH</b>					
MAP	4.2	19.5	19.4	15.9	7.0
MARKET	4.4	16.7		13.9	5.8
VARIANCE	(0.2)	2.8		2.0	1.2

Market for the Cash Pool is the UBS Warburg Bank Bill index less 0.5% pa for administration and 15% for tax.

Market for the Australian Equities, International Equities, Property, Capital Stable, Balanced and Growth Pools is the appropriate Median manager performance of the Mercer Investment Consulting Superannuation Multi-Sector fund survey.

The tactical positions we have implemented for the fund (these are relevant particularly for the capital stable, balanced and growth pools) have changed slightly in that we are now holding Australian shares at a neutral weight while overweighting international shares. Our underweighting to fixed interest continues. As always we will review the outcome of these positions at the end of the financial year.

*"Independently produced survey's (Mercer) show our Capital Stable and Balanced Pools are producing top quartile performance"*

## Outlook

At MAP, we have been expecting bond yields to rise for some time now (hence our underweight fixed interest position described above). To date bond yields have remained low as inflation remains well controlled (even in the face of significant rises in input costs) and investors seem content to own bonds that provide only a minimal income yield. Many explanations have been put forward for this scenario but it seems probable that certain investors (for example China/Japan with large holdings of foreign currencies from trade surpluses) being prepared to invest in a non-rational manner is the most plausible. Some talk has emerged of these (and other) countries broadening their holdings of foreign currencies away from the \$US (which would involve selling their US bond holdings), but to date this has not occurred significantly.

The trigger for rising US bond yields (for a rational investor) will generally be increased expectations for future inflation or economic growth. Rising economic growth or inflation will also generally result in rate increases by central banks (US Federal Reserve in America or the RBA in Australia). US cash rates are currently at 4.25% and the market only expects one or two more quarter percent increases to this rate. Increases above this level could have an effect on the US share market (which would then affect the Australian market). In Australia the current expectation varies between zero and one quarter percent increase for this year.

These issues (when the Fed reaches a neutral position, and what is the outlook for inflation) will be a large influence, along with corporate profits, in determining the direction of share markets (leaving aside terrorist attacks and other unforeseen events). The oil price could also become a determining factor as a result of its effect on both economic growth and inflation.

At the local market level employment continues to be reasonably strong, economic growth is okay (but not spectacular) and business investment continues to take up some of the slack from a slowing household sector. Retail spending will be influenced by the recent run up in oil/petrol prices, but offset by the expected tax cuts for 1 July 2006 (with the prospect of higher tax cuts on the basis of recent upgrades to expectations for the budget surplus). It seems that households have curtailed spending of late, probably in line with the slowdown in house prices. If another rate rise was to occur it would place additional pressure on retail spending. However employment growth should remain reasonably strong and this should provide a floor for spending. Overall economic growth is expected to be around 3.5% for calendar year 2006 (UBS 30 January 2006).

## How to contact us

MAP Funds Management Ltd

ACN 011 061 831

Level 9, 87 Wickham Terrace Brisbane Qld 4000

GPO Box 1130 Brisbane Qld 4001

Telephone: 07 3838 1234

Facsimile: 07 3838 1235

Toll Free: 1800 640 055 (outside Brisbane)

Email: [enquiries@mapfunds.com.au](mailto:enquiries@mapfunds.com.au)

Website: [www.mapfunds.com.au](http://www.mapfunds.com.au)

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