

# Your FINANCIAL

## Health

MARCH 2007

**MAP**  
FINANCIAL SERVICES FOR  
THE HEALTH PROFESSIONAL

**NEWS FLASH!**  
Proposed  
superannuation  
budget changes  
passed through  
Parliament 27 Feb!

## MAP has made changes to its investment pools!

In line with our continued focus to act in the best interests of members, our investment team have initiated some changes to our already competitively performing investment pools.

It's important to stay ahead of market trends and these changes have been introduced with the idea of continuing MAP's investment success well into the future.

### What has changed?

#### Growth Pool

The Growth Pool previously invested predominantly in Domestic and International equities with a small proportion held in cash. The investment strategy will now be broadened to include investment in property companies or trusts listed on global stock exchanges as well as allowing investment in a well diversified portfolio of Australian and global fixed interest investments supplemented by risk controlled exposure to alternative assets.

#### Diversified Property Pool

The Property Pool will in future be referred to as the Diversified Property Pool. Previously, the Property Pool indirectly invested only in property companies or unit trusts listed on the Australian Stock Exchange, however from 26 February 2007, it will include investment in property companies or trusts listed on global stock exchanges.

### Where do I get more information?

Should you require further information, or would like to obtain a copy of the Product Disclosure Statements, please contact us. Alternatively, log onto our website at [www.mapfunds.com.au](http://www.mapfunds.com.au) and follow the prompts.

**MAP AEF Returns 24.3% for the  
3 years to 31 December 2006!**

**MAP Allocated Pension Plan Growth  
Option Ranked #1 in Australia for the 3  
years to 31 December 2006 returning an  
average per annum, after fees of 20.2%\***

### Nearing the end of the current high returns?

We are half way through the current financial year and returns are still impressively high. Keep in mind that we are almost certainly closer to the end of the current period of impressive investment returns (which started in 2003) than to the start. We are also seeing a lot of money flowing into the asset classes that have provided the best returns over the last year or so.

If you are following this strategy, a word of caution: usually this activity ends in tears as the best performing asset class from one year is not usually the best performer for the next year. Remember your objective - wealth creation over your working life to provide a healthy retirement benefit - not trying to pick short term winners.

The returns for MAP's Pools are well above that of our defined competitors (see table) for almost all pools over one, two, three and five year periods to 31 December 2006. The only exception is the Australian Property pool. In this pool we have recently redeemed funds held with UBS and Legg Mason and invested with Principal Global Investors.

*\*The December 2006 Independent survey conducted by SelectingSuper ranks the MAP Allocated Pension Growth Option #1 for the 3 years to 31 December 2006. SelectingSuper independently surveys the investment performance of over 160 Superannuation Funds Australia wide. SelectingSuper is an independent company specialising in superannuation and retirement information for consumers, [www.selectingsuper.com.au](http://www.selectingsuper.com.au)*

## Comparative Pool Returns as at 31 December 2006

	% PA	% PA	% PA	% PA	% PA
POOLS	3 MTHS	1 YEAR	2 YEARS	3 YEARS	5 YEARS
<b>CASH</b>					
MAP	1.5	5.5	5.4	5.3	4.6
MARKET	1.2	4.7	4.6	4.5	4.2
VARIANCE	0.3	0.8	0.8	0.8	0.4
<b>AUSTRALIAN EQUITIES</b>					
MAP	9.8	21.1	21.5	*	*
MARKET	9.7	20.5	20.0	*	*
VARIANCE	0.1	0.6	1.5	*	*
<b>INTERNATIONAL EQUITIES</b>					
MAP	4.5	10.3	12.8	*	*
MARKET	3.0	9.7	12.0	*	*
VARIANCE	1.5	0.6	0.8	*	*
<b>PROPERTY</b>					
MAP	11.0	27.3	19.5	*	*
MARKET	12.2	28.6	19.5		*
VARIANCE	(1.2)	(1.3)	(0.0)	*	*
<b>CAPITAL STABLE</b>					
MAP	3.2	8.2	8.5	9.0	6.7
MARKET	2.6	7.1	7.4	7.8	5.6
VARIANCE	0.6	1.1	1.1	1.2	1.1
<b>BALANCED</b>					
MAP	6.0	13.8	14.3	14.8	8.7
MARKET	5.2	12.9	13.3	13.6	7.6
VARIANCE	0.8	0.9	1.0	1.2	1.1
<b>GROWTH</b>					
MAP	7.6	16.4	17.9	18.4	9.3
MARKET	6.7	15.1	15.3	15.3	8.3
VARIANCE	0.9	1.3	2.6	3.1	1.0

\* These pools commenced 1 March 2004. 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 from the Mercer Superannuation (Multi-Sector) performance surveys.

## Outlook

Slowing economic growth in Australia and America along with the potential for higher bond yields and inflation will cause some headwinds for investment markets. Add to that the fact that markets are not cheap and it is possible to paint a scenario of lower returns in the future.

However, the weight of cash flows from superannuation funds, and other investors as well as corporate merger and acquisitions, should continue to support global markets in the shorter term while world economic growth will continue to be supported by strong Asian/Chinese growth.

Recent falls in the oil price, as well as the fall in the price of other commodities (especially copper) will lower inflation rates and corporate input costs and increase economic activity generally. In Europe and Japan economic growth continues, although at a slow rate.

In Australia, the employment market continues to remain strong. However it appears that the strong jobs growth is at least partially as a result of a 'ripple' effect from the earlier strong employment growth in the mining/construction sector. As these second round effects dissipate, it is possible that jobs growth will slow.

## Transition to Retirement

Transitioning to retirement legislation was introduced from 1st July 2005. Clients aged over preservation age (currently age 55 and over) are able to draw on their super while continuing to work (part-time or full-time). This allows mature age workers to cut back working hours and top up their income by drawing down on their superannuation by commencing a non-commutable income stream to maintain their existing lifestyle.

It is important to note that there is no requirement to reduce working hours to commence a non-commutable income stream and no limit on the amount that can be used to commence an income stream.

## Non-commutable income streams

### Term Allocated Pensions

- Payable for a fixed term between your life expectancy and to age 100 (your choice)
- Some flexibility with income payments with plus or minus 10% of the legislated pension payment
- Underlying growth and income received inside the Term Allocated pension is tax free
- Non-commutable at all times (except within the first 6 months after commencement)
- \*50% asset test exempt for Centrelink
- \*\*Can allow access to higher pension Reasonable Benefit Limit (\$1,356,291)
- \*\*Can qualify for tax rebate of up to 15% on pension payments

### Allocated Pensions

- Payable for life or until money runs out
- Underlying growth and income received inside the Allocated Pension Account is tax free
- Upon retirement or reaching age 65 the Allocated Pension will become commutable
- \*No Centrelink benefits under the Assets test – account balance is included in assessable assets
- \*\*Assessed against the lower lump sum Reasonable Benefit Limit (\$678,149)
- \*\*Can qualify for tax rebate of up to 15% on pension payments

- \*\*\*Flexible income payments between legislated minimums and maximums

\* From 20 September 2007 there are proposals to change the Social Security treatment of non-commutable income streams. A non-commutable income stream commenced after 20 September 2007 will be fully assessable under the assets test under the changes.

\*\*From 1st July 2007 there are changes to superannuation legislation, which abolish Reasonable Benefit Limits and make pension income tax free for persons over the age of 60.

\*\*\*From 1st July 2007 the maximum is 100% of your pension balance.

Term Allocated Pension and Allocated Pension income streams offer different opportunities for planning purposes, however Allocated Pensions offer the most in terms of flexibility and have been the most popular form of a non-commutable transition to retirement income stream.

Although many mature age workers will be keen to scale back work commitments and increase their leisure time, others will want to remain in the workforce full-time. These workers can use the new rules to build their retirement benefits through effective salary sacrifice arrangements.

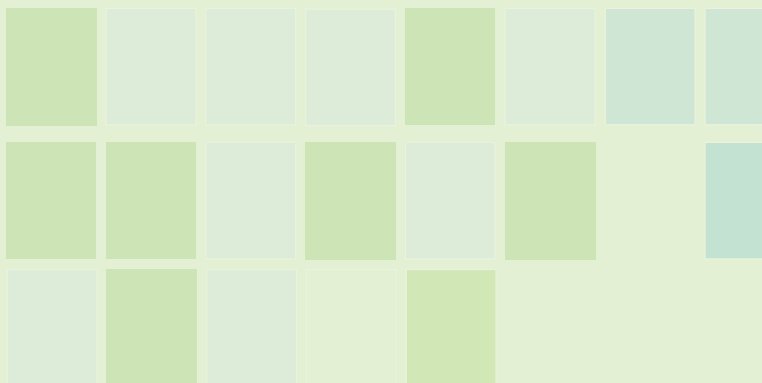
## Strategy – Over Age 60

Bill is age 65 earning \$90,000 a year. He has \$700,000 (\$100,000 undeducted contributions, \$280,000 Pre July 1983 component and \$320,000 Post July 1983 component) in superannuation benefits.

Bill commences an allocated pension with the full balance of \$700,000 in superannuation, and draws an annual net income of \$64,800 from his Allocated Pension account. He also instructs his employer to salary sacrifice \$80,000# of his salary to his superannuation fund. We have assumed an earning rate of 7% on the superannuation and pension funds.

In relation to interest rates, the increase in the Consumer Price Index (CPI) for the quarter to 31 December was - 0.1% (3.25% for the year) which should be low enough to restrain the RBA from raising rates in the immediate future.

Note that 0.9% of the fall in inflation was due to the drop in the price of fuel (put another way, the quarterly inflation rate would have been 0.9% higher if fuel prices had not dropped).



#From 1st July 2007 a universal limit of \$50,000 per person of deductible contributions will be allowed each year. The \$50,000 threshold will be indexed to Average Weekly Ordinary Times Earnings (AWOTE) but will only increase once the increase in the indexed amount is greater than \$5,000. A transitional period for people aged over 50 applies whereby you are allowed to contribute up to \$100,000 each year up to the year ended 2011/2012. This amount will not be indexed.

## Comparison of superannuation benefits – Over Age 60

	Do Nothing	Pre 1/7/07 Use Strategy	Post 1/7/07 Use Strategy
Gross Income	\$90,000	\$72,761	\$64,800
Tax Payable	\$25,200	\$7,961	NIL
Net Income	\$64,800	\$64,800	\$64,800
Super Balance	\$749,017	\$80,126	\$80,126
Pension Balance	Nil	\$686,238	\$694,200
Government Co-contribution entitlement	Nil	Nil	\$1,500
<b>Net Benefit</b>	<b>Nil</b>	<b>\$17,347</b>	<b>\$26,809</b>

Sacrificing down to a lower level of salary may also enhance eligibility for other benefits such as eligibility for the co-contributions scheme or the mature age workers tax offset. We have assumed in these illustrations that under the changes to legislation, should Bill make a personal contribution of \$1,000 per annum, he would be eligible for the Government Co-contribution payment of \$1,500.

## Strategy – Salary Sacrifice up to age 75

Bill is now age 70 and his salary is still \$90,000 per annum. The following example shows the net benefit assuming Bill continues to salary sacrifice \$80,000 per annum and continues to draw a net income from his Allocated Pension of \$64,800 per annum.



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## Comparison of superannuation benefits at age 70

	Do Nothing	Pre 1/7/07 Use Strategy	Post 1/7/07 Use Strategy
Gross Income	\$90,000	\$72,761	\$64,800
Tax Payable	\$25,200	\$7,961	Nil
Net Income	\$64,800	\$64,800	\$64,800
Super Balance	\$976,037	\$451,232	\$451,232
Pension Balance	Nil	\$620,861	\$666,645
Government Co-contribution entitlement	Nil	Nil	\$1,500
<b>Net Benefit</b>	<b>Nil</b>	<b>\$96,056</b>	<b>\$143,340</b>

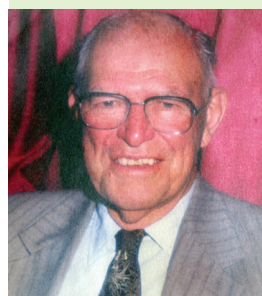
The benefit of utilising a transitioning to retirement strategy while continuing to work is to increase your retirement benefits. This strategy also provides lifestyle choices as to when you wish to retire or semi retire from the work force.

You should obtain personal retirement planning and investment advice and appropriate disclosure documents before making any investment decisions relying on the information provided. The information provided is factual information and general advice only and is believed to be reliable and accurate. The information in this document is not suitable to be acted upon as personal advice or a recommendation for the above transitioning to retirement strategy. No responsibility is accepted by the MAP Group or any employee or director for any action that may be taken on the basis of information provided in this document.

Please contact Sue Winsor or Lylia Taylor from MAP Financial Planning if you would like to discuss transitioning to retirement or the changes to Superannuation Legislation.

### In Memoriam

Dr Norman Vincent Youngman  
(1 November 1911 – 27 December 2006)



MAP wishes to acknowledge the passing of Dr Youngman who was a Board Member and Chairman of MAP from 1970 to 1983.

MAP is proud to have known and received the valued services of such a renowned and respected person.