Winter Edition | June 2014

Blueprint Update

PARTNERING WITH YOU IN SECURING YOUR FINANCIAL FUTURE AND ACHIEVING YOUR LIFETIME GOALS.

New Budget Release

As we head into the cooler months ahead, we are pleased to bring you the latest edition of our quarterly newsletter for your reading pleasure.

We will be addressing the following topics:

- 2014-2015 Federal Budget Highlights
- Market Update

Enjoy and we will see you in our next edition….

Market Update - Global Snapshot

Country	Index	Index 03/06/2014	% Change in 12 months
Australia	ASX 200	5,518	19.70%
USA	Dow Jones	16,717	13.45%
USA-Tech	Nasdaq	4,243	24.26%
UK	FTSE100	6,845	8.46%
Hong Kong	Hang Seng	23,082	8.79%
Japan	Nikkei	14,936	15.49%

Source: Bloomberg World Stock Indexes as at 03/06/2014

Matrix Norwest
Financial Planners

Federal Budget Highlights

On Tuesday, 13th May 2014, the Federal Treasurer, Joe Hockey, delivered his first budget - one he described as 'not about self-interest' but rather 'about the national interest'.

If you are retiring or are already retired, you could be impacted by a number of changes.

Note: *These measures are proposals only and may not become law.*

Summary of the major changes

The major highlights announced in the Budget include:

- Introduction of a Temporary Budget Repair Levy for high income earners from 1 July 2014;
- Gradual increase of Age Pension age to 70 by 1 July 2035;
- Freezing Income and Assets Test thresholds for Government pensions from 1 July 2017;
- 'Re-setting' of deeming rates from 20 September 2017 and
- Changes to the way Government pensions are indexed from 1 September 2017.

Taxation

Temporary Budget Repair Levy

From 1 July 2014, the Government proposes to introduce a Temporary Budget Repair Levy payable by high income earners for the next three financial years. The levy will apply 2% on an individual's taxable income over $180,000.

This temporary levy and the increased Medicare levy (to 2%) from 1 July 2014 will effectively increase the top marginal tax rate to 49% until 30 June 2017.

The fringe benefits tax (FBT) rate will also increase by 2% to 49% from 1 April 2015 until 31 March 2017 to align with the FBT income year.

	Levy payable ($)			
Taxable income ($)	**2014-15**	**2015-16**	**2016-17**	**2017-18**
180,000 or below	0	0	0	0
200,000	400	400	400	0
250,000	1,400	1,400	1,400	0
300,000	2,400	2,400	2,400	0
350,000	3,400	3,400	3,400	0
400,000	4,400	4,400	4,400	0
450,000	5,400	5,400	5,400	0
500,000	6,400	6,400	6,400	0

Company tax cuts

From 1 July 2015, the Government proposes to reduce the company tax rate by 1.5% to 28.5%. For large companies, this reduction will offset the 1.5% levy to fund the Government's Paid Parental Leave Scheme which also commences from 1 July 2015.

Superannuation

Changes to the Superannuation Guarantee (SG) increase

On 1 July 2014, the 9.25% SG will increase by 0.25%. The Government proposes to then freeze future increases until 1 July 2018, at which time it will increase to 10%. It will then increase by 0.5% each year until it reaches 12% by 1 July 2022.

Table 1: Increase in SG contributions

Year commencing	Legislated SG contributions	Budget 2014 proposed SG contributions
1 July 2014	9.5%	9.5%
1 July 2015	10%	9.5%
1 July 2016	10.5%	9.5%
1 July 2017	11%	9.5%
1 July 2018	11.5%	10%
1 July 2019	12%	10.5%
1 July 2020	12%	11%
1 July 2021	12%	11.5%
1 July 2022	12%	12%

Excess non-concessional contributions (NCC)

There is a limit on the amount of NCCs you can make to superannuation each year. If you contribute more than this, the additional amount is generally taxed at the top marginal tax rate.

The Government proposes changes to allow individuals to withdraw excess NCCs, along with associated investment earnings, made after 1 July 2013. Where this occurs only the associated earnings will be taxed at the individual's marginal tax rate. In the event that excess NCCs are left in superannuation, they will be taxed at the top marginal tax rate.

Federal Budget Highlights… *to be continued*

Social Security

Changes that relate to Centrelink and Department of Veterans Affairs (DVA)

There are a number of changes the Government proposes in relation to Centrelink and DVA payments that will commence at different times over the next few years. These include:

- Age Pension qualifying age is to be increased to 70 (from age 67) by 1 July 2035. This measure will look at increasing the Age Pension age from 1 July 2025 by six months each two years until it reaches age 70 by 1 July 2035. You will only be affected by this measure if you were born on or after 1 July 1958.

People born between	Eligible for Age Pension at age
1 July 1952 and 31 December 1953	65½
1 January 1954 and 30 June 1955	66
1 July 1955 and 31 December 1956	66½
1 January 1957 and 30 June 1958	67
1 July 1958 and 31 December 1959	67½
1 January 1960 and 30 June 1961	68
1 July 1961 and 31 December 1962	68½
1 January 1963 and 30 June 1964	69
1 July 1964 and 31 December 1965	69½
1 January 1966 and later	70

- The 'Housing Help for Seniors' pilot announced in the 2013-14 Budget will no longer take place.
- Disability Support Pension (DSP) recipients under age 35 with an assessed work capacity of eight hours or more a week who have a participation plan will have compulsory activities. In addition, the portability requirements for all DSP recipients traveling overseas will be tightened from 1 January 2015.
- From 1 July 2017, the Income and Assets Test thresholds for the Age Pension, Carer Payment, DSP and the Veterans' Service Pension will be frozen for three years.
- From 1 September 2017, increases in the Age Pension, DSP, Carer Payment, Bereavement Allowance and Veterans' Affairs pensions will be linked to the consumer price index (CPI) only. For recipients of Parenting Payment Single, the measure will start on 1 July 2014.
- From 20 September 2017, the deeming thresholds will be reset to $30,000 for singles and $50,000 for couples.

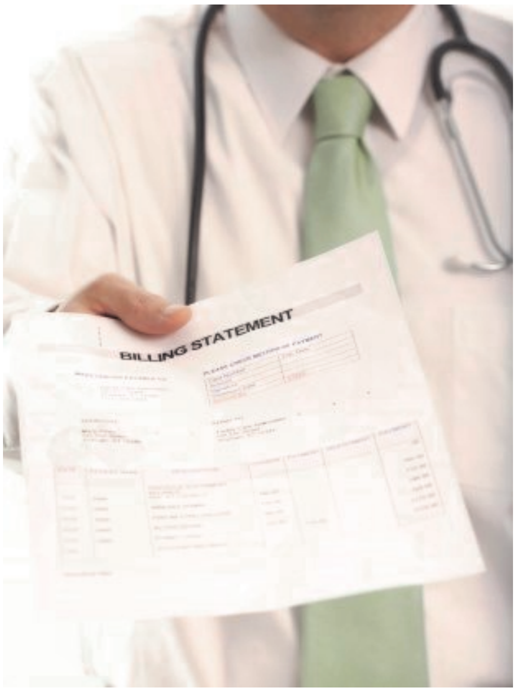
Commonwealth Senior Heath Card (CSHC) changes

From September 2014, the Government proposes to index the income thresholds for the CSHC by CPI. Additionally, from 20 September 2014 the Seniors Supplement will no longer be payable for holders of the CSHC.

From 1 January 2015, new account-based income streams will be deemed for Centrelink purposes. From that date, the Government proposes to also include this deemed amount as income towards the CSHC Income Test. Grandfathering rules will apply to those already holding a CSHC.

Other proposed measures that may be relevant to you:

- From 1 July 2014, the Clean Energy Supplement will no longer be indexed;
- From 1 July 2014, the National Partnership Agreement on certain concessions will terminate. Some of the benefits covered in that agreement include council land and water rates, utilities including energy and sewerage, motor vehicle registration and public transport;
- From 1 August 2014, the biannual indexation of excise and excise-equivalent customs duty for all fuels except aviation fuel will be reintroduced;
- From 1 July 2015, a patient contribution of $7 will be introduced for standard GP consultations and out-of-hospital pathology and diagnostic imaging services; and
- From 1 July 2014, the Dependant Spouse Tax Offset and Mature Age Worker Tax Offset will be completely abolished.



Source: Challenger Life Company Limited ABN 44 072 486 938, AFSL 234670 (Challenger) and is current as at 14 May 2014

Market Update

Growth assets continue to reward investors as we move towards the end of the financial year. Global and domestic equities continue to deliver strong returns compared to the low cash and fixed interest returns.

Australian Economy and Sharemarket

In Australia, the focus has been on the Federal government's budget and what the flow-on effects to the economy are likely to be. While there has been much political noise around the severity of the cuts, the budget can be assessed as a gentle fiscal repair budget with many of the savings being delayed and a number to be implemented after the next election which may not occur.

The deficits over the remaining term of this government still remain at relatively high levels. The question to consider is, 'Should each generation pay for itself or is debt going to be passed to the next generation?'. The government needs to be mindful not to retard the drivers of growth as we come off record terms of trade and a slowing resources sector. Current GDP growth forecast for 2014 is 2.75% and is below the long term growth of 3.5%. Unemployment is also going to be a key indicator for the health of the economy over the year ahead.

From a research perspective, our research Committee's focus is also to assess the Budget on its likely impact on the broader economy and financial markets.

There are two misnomers that some parts of the media perpetuate that we need to dispel:

- We cannot equate the health of government finances with that of the broader economy. In other words, a budget surplus does not necessarily result in a stronger economy, nor does a Budget deficit imply a weaker economy. There are a number of policy tools (including monetary policy) that need to work together to smooth the business cycle over time.
- To the above point, financial markets are more interested (and therefore will respond) to the words and actions of econocrats (e.g. central banks) compared to politicians. This has been particularly true since the outset of the GFC and in other developed economies, where the transfer from private to public debt has limited governments' ability to stimulate economic growth.

This is not to say that the Budget is not an important part of the overall management of the economy, it just needs to be seen in context of these earlier points.

International Economy and Sharemarket

Uncertainty still overshadows the emerging world which reflects political and currency problems in a number of countries including Turkey, Argentina, Brazil, South Africa, Ukraine and Russia as well as concerns about weaker Chinese growth. The concerns largely reflect the unknown consequences of unwinding the US stimulus (QE3) which has had significant flow on effects to the developing economies.

Investment sentiment and the key drivers of the equities bull market remains intact for 2014 which favours growth assets over defensive/income assets. Record low interest rates in the developed economies and continued stimulus although at a reducing level in the US should continue to be the catalyst to support the growth assets over the coming months. This environment supports increased liquidity, which should continue to drive equities investing. Of increasing concern is that many of the markets are bordering on fair value to over-valued, which is likely to add to increased volatility over the year ahead.

While concerns have risen of the Chinese growth easing it continues to be a major contributor to world growth. The Chinese leadership has commenced to implement an ambitious reform agenda and is seeking to balance a transition from infrastructure investment spending to an increased consumption spending focus.

The Japanese equities market continues to be driven on the back of the large QE stimulus. More difficult reforms have been undertaken to re-energise Japan's economy. This has led to renewed optimism in Japan with deflationary pressures gradually receding.

The Eurozone continues to lay the foundations for recovery with most countries moving out of recession, although there is little growth being generated from the region. The strong support of the ECB is providing the catalyst for Europe's recovery and activity in the equities markets across the region.

Source: *Bloomberg World Stock Indexes*
Challenger Life Company Limited
McGregor Asset Consulting May 2014
Matrix Research Committee Key Messages May 2014

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