Finance Discipline Group

UTS Business School

25796 Personal Wealth Management

Spring Semester 2024

Group Assignment Report (50 marks)

Submission Date - Online on Canvas by **11.59pm Friday 25 October, 2024**

***This Report is to be submitted by the Group Leader**. Reports will only be marked if all group members' **full names and student numbers** are written on the cover sheet.*

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+——————————————————————————-+ | I/We confirm that I/we have read, understood and followed the | | guideline and advice in the Subject Outline about assessment | | requirements. | | | | I/We understand that if this assignment is submitted after the due | | date, it will not be accepted unless I/we have previously had an | | extension of time approved and have attached the written confirmation | | of this extension. | | | | **Declaration of originality**: The work contained in this | | assignment, other than that specifically attributed to another | | source, is that of the author(s) and has not been previously | | submitted for assessment. Consequently, we certify that we wrote this | | answer by ourselves and all sources used, have been acknowledged in | | this assignment. We have not copied another team's answer, or part | | thereof. We understand that, should this declaration be found to be | | false, disciplinary action could be taken and penalties imposed in | | accordance with University policy and rules. | | | | **Signature of Team Leader:** | | _____ | | ______________________________ | | **Date: 24/10/2024** | +== +——————————————————————————-+

Executive Summary

Financial Plan for Cathy and Alan Smith

This financial plan has been prepared by your authorized representative of an AFS licensee with **Premium Financial Planning (PFP) Pty Ltd** ("We") for Cathy and Alan

Smith ("You"). This document has been tailored to your specific financial circumstances and goals.

Our analysis shows that you have **large liabilities** due to your mortgage, car loans, and credit card debt. While your superannuation balances are growing, the **current short-term debt** and high discretionary spending could cause financial stress in the coming years if not managed effectively. Below is a summary of recommendations to help you achieve financial stability, retire at the desired age, and manage financial risks:

1. Superannuation and Retirement Planning:

- **Current Superannuation Balances**:
    - Cathy: \46,000
    - Alan: \39,000

By making compulsory superannuation contributions over the next 14 years, Cathy and Alan will accumulate an estimated **\859,360** in combined superannuation. With a **6.5% annual growth rate**, this balance can provide an annual retirement income of approximately **\77,992** for 20 years. To ensure comfort during retirement, I recommend continuing with regular contributions while reviewing superannuation fund performance regularly.

2. Debt Management Strategy:

- **Current Debt**:
    - Mortgage: \670,000
    - Car Loans: \45,000
    - Credit Card Debt: \41,000

To improve your financial position and ease short-term debt pressures, I recommend consolidating your **car loans and credit card debt** into a single loan with a lower interest rate. This will lower your total repayments to approximately **\19,464 per year**, down from **\27,500**. Additionally, reducing your discretionary expenses by **75%** will provide additional cash flow to pay down debts faster. This strategy will improve your **savings ratio** from -22.09% to **3.50%** and accelerate **net worth growth** to \1,502,680 in 5 years.

3. Risk Management and Insurance:

Given Alan’s family history of heart disease, it is critical to ensure you have adequate insurance to protect your family in the event of illness or premature death. The recommended approach includes:

- **Additional Life Insurance**: Increase Alan’s life insurance by **\571,000** to cover mortgage repayments, Cindy’s education, and final expenses, ensuring Cathy’s financial stability until retirement.

- **Total and Permanent Disability (TPD) Insurance**: I recommend obtaining **TPD insurance** of **\571,000** for Alan to cover living expenses and liabilities should he become unable to work due to disability.
- **Annual Risk Review**: To ensure the insurance coverage remains adequate, I suggest conducting an **annual review** or whenever there is a significant life or financial change.

4. Investment Strategy:

You are currently classified as **conservative investors**, yet your portfolio has a more **aggressive allocation**. To align your investments with your risk tolerance, I suggest:

- **Rebalancing your portfolio** to include **70% conservative assets** (fixed income, bonds, cash) and **30% growth assets** (diversified index funds). This will reduce volatility and protect your capital while providing steady returns.
- **Regular portfolio reviews** to adjust asset allocation as needed, ensuring your investments continue to align with your risk profile.

5. Tax Planning and Pension Entitlements:

- **Income Tax (as of 30 June 2024)**:
    - Cathy: \38,470.20
    - Alan: \37,061.45

I recommend exploring options to minimize your tax burden, such as salary sacrificing to superannuation and reviewing your private health insurance to avoid the **Medicare Levy Surcharge**.

- **Age Pension Entitlements**: Based on your retirement assets and income, you will receive an **Age Pension** of **\739.60 per fortnight each**, or **\38,459.20 annually** combined. Including expected retirement income, your total retirement income will be approximately **\53,459.20 per year**.

By implementing these recommendations, you will enhance your financial security, ensure proper debt management, align your investments with your risk tolerance, and optimize your retirement income. Regular reviews will help adjust your plan as your financial needs evolve.

Should we also talk about estate planning and will

Question 1:

Explain to your clients what a financial planner does, what qualifications and training they need to be qualified in Australia, how they are registered and what ethical standards they need to uphold.

Answer: As your financial advisor, Cathy and Alan, I want to take a moment to explain my role and how financial planners operate in Australia.

First and foremost, a financial planner like me is here to help you make informed decisions about your financial future. This includes providing tailored advice on a wide range of topics such as investments, superannuation, debt management, insurance, and retirement planning. The aim is to help you achieve your financial goals whether that's buying a home, planning for Cindy's education, or ensuring you have a comfortable retirement.

Qualifications and Training:

To be a qualified financial planner in Australia, I must meet several education and professional standards. This includes:

- **Formal Education**: I've completed a relevant degree, such as in financial planning, and a **graduate diploma** in financial planning. This ensures that I have a solid understanding of financial products and strategies.
- **Financial Adviser Exam**: I passed the **Financial Adviser Standards and Ethics Authority (FASEA)** exam, which is a requirement for all financial planners.
- **Continuing Professional Development (CPD)**: Each year, I complete at least 40 hours of professional development to ensure my skills and knowledge are up to date. This helps me stay current with financial regulations and best practices.
- **Professional Year**: New financial planners must also complete a **full-time professional year**, including 1,500 hours of work activities and structured training. I went through a similar process to build the practical skills needed to advise clients like yourselves.

Registration and Licensing:

In Australia, I operate as an **authorised representative of an Australian Financial Services (AFS) licensee**, which in my case is **Premium Financial Planning (PFP) Pty Ltd**. To be a licensed financial advisor, I am registered with **ASIC's Financial Adviser Register**. This register ensures that I am legally able to provide you with personal financial advice and that I meet the necessary regulatory standards.

Ethical Standards:

Ethics is a core part of my professional duty to you. As a financial planner, I am bound by several ethical obligations:

- **FASEA Code of Ethics**: This code ensures that I act with honesty, fairness, and integrity in all dealings with you. Most importantly, I must always put **your best interests** ahead of my own or any other party's.
- **Best Interest Duty**: I'm required by law to always act in your best interests, and this means any advice I give must be suitable for your specific needs and goals.
- **Avoiding Conflicts of Interest**: I must not let any personal incentives, such as commissions or fees, influence the advice I give. If there's any potential conflict, I will disclose it fully.

- **Confidentiality**: Your personal and financial details will remain confidential and secure. I’m required to comply with privacy regulations, ensuring that your information is never shared without your explicit consent.

Overall, my role is to ensure that every financial decision you make aligns with your long-term goals, while complying with the strict regulatory and ethical framework that governs financial advice in Australia. This process ensures that you are getting advice that’s genuinely in your best interest.

Please let me know if you have any more specific questions, or if there's anything you would like more information on!

Question 2:

Outline the agenda of the first meeting you have with your clients. What do you hope to achieve from this meeting and what documentation should you provide and why? Once you have conducted your analysis you will meet with the clients again to discuss the proposed financial plan. What documentation should you provide in this meeting and why?

Answer: Agenda for Our First Meeting

In our first meeting, Cathy and Alan, the primary goal is to understand your personal and financial situation, your goals, and to set the foundation for how we can work together to achieve those objectives. Here’s the agenda for our initial meeting:

1. **Introductions and Overview of the Financial Planning Process**: I’ll start by explaining the role I play as your financial planner and what the overall process looks like—from gathering information to implementing strategies and regularly reviewing them.

2. **Gathering Personal and Financial Information**: We’ll go through your personal and financial details, including income, expenses, assets, liabilities, and insurance policies. The goal is to understand your current financial situation clearly.

3. **Clarifying Your Financial Goals**: This is where I’ll ask you about your specific short-term and long-term financial goals. This could include saving for Cindy’s education, planning for your retirement, reducing debt, or ensuring adequate insurance coverage.

4. **Risk Tolerance and Investment Preferences**: We’ll discuss your attitudes toward risk, and whether you prefer conservative, moderate, or high-growth investments. This will help guide future recommendations for your portfolio.

5. **Discussing Initial Concerns or Questions**: If you have any immediate concerns, such as managing your mortgage, investments, or superannuation, we’ll cover those so I can understand what’s top of mind for you.

What We Hope to Achieve:

- **Understanding Your Goals**: By the end of the meeting, I hope to have a clear understanding of your financial goals, risk tolerance, and current financial situation.
- **Building a Working Relationship**: It's also an opportunity for us to build trust and establish open communication, which is key to our ongoing relationship.
- **Initial Documentation**: I'll need you to complete a **Client Data Form** to ensure we have all the necessary details to build your financial plan.

Documentation Provided in the First Meeting:

1. **Financial Services Guide (FSG)**: This document explains who I am, the services I offer, how I am paid, and any affiliations that could present conflicts of interest. It also outlines your rights as clients, including how you can make a complaint. It's essential to provide this upfront so you're fully informed of your rights and our responsibilities.
2. **Fact-Finding Questionnaire**: I will provide a detailed fact-finding questionnaire to collect more in-depth information about your financial circumstances. This is crucial for tailoring a financial plan that is specific to your needs.
3. **Privacy Policy**: As part of my regulatory requirements, I will give you a copy of our privacy policy, which outlines how we handle your personal information to ensure your privacy is protected.
4. **Risk Profile Questionnaire**: This questionnaire will help us assess your risk tolerance, which is key for determining the appropriate investment strategies for your financial plan.

Second Meeting – Presenting the Financial Plan

Once I've conducted a thorough analysis of your financial situation and goals, we'll meet again to discuss the proposed financial plan. The agenda for this second meeting will focus on reviewing the plan and making any necessary adjustments.

Agenda for the Second Meeting:

1. **Overview of the Financial Plan**: I'll present the comprehensive financial plan, which includes recommendations for investments, debt management, insurance, and retirement planning.
2. **Investment Strategy**: We'll review the proposed asset allocation and any recommended investment products, discussing how these align with your goals and risk tolerance.
3. **Insurance Review**: We'll look at your life insurance coverage, especially given Alan's family history of heart disease, to ensure you're adequately protected.
4. **Superannuation Strategy**: We'll discuss your current superannuation accounts, and the steps needed to grow these for your retirement goals.

5. **Action Plan and Next Steps**: We'll agree on the actions you need to take and the timeline for implementing the plan, including any necessary changes to your financial arrangements.

Documentation Provided in the Second Meeting:

1. **Statement of Advice (SOA)**: This is a legally required document that contains the formal recommendations I'm making based on our discussions. It includes a detailed breakdown of your financial situation, the strategies I'm suggesting, and the reasons behind those recommendations. The SOA is important because it provides transparency and ensures you understand the basis of my advice.
2. **Investment Product Disclosure Statements (PDS)**: If I'm recommending specific investment products or superannuation funds, you will receive a PDS for each product. This outlines the product features, fees, risks, and other relevant details. It's important because it helps you make an informed decision about whether the products suit your needs.
3. **Action Plan Summary**: I'll provide a simple summary document outlining the next steps, such as setting up accounts, making additional contributions to superannuation, or adjusting insurance coverage. This makes it easier for you to know what's required moving forward.
4. **Updated Risk Profile**: If there have been any changes to your financial situation or risk tolerance since our first meeting, I'll provide an updated risk profile to reflect this in your financial plan.

In summary, our first meeting will focus on gathering the information needed to craft a comprehensive financial plan, and the second meeting will be dedicated to discussing the proposed plan in detail, ensuring it aligns with your goals and comfort level. All the documentation I provide is to ensure transparency, regulatory compliance, and clarity so that you're fully informed and confident in the decisions we make together.

Question 3:

Your clients don't have any significant savings and don't seem prepared for their retirement in 14 years. They have a small balance in their compulsory superannuation fund. Illustrate to your clients the likely superannuation balance at retirement if they only contribute the compulsory superannuation contributions. If they plan to fund their retirement for 20 years what will this equate to in an annual income. Assume a discount rate of 6.5%.

Answer: Cathy and Alan! Let's walk through the calculations step by step to give you a clear understanding of how your superannuation will grow over the next 14 years, based on your compulsory contributions.

1. Initial Superannuation Balances:

- **Client A (Cathy):** Your current superannuation balance is **\46,000**.

- **Client B (Alan):** Your current superannuation balance is **\39,000**.

2. Annual Superannuation Contributions:

- The compulsory superannuation contribution rate is currently **11.5%** of your annual income.
- **Cathy's Contributions:** Based on your salary of **\132,400**, your yearly superannuation contribution will be **\15,226**.
- **Alan's Contributions:** With a combined income from both jobs totaling **\128,900** (\86,000 + \42,900), your annual contribution will be **\14,823.50**.

3. Growth Rate Assumed (Discount Rate): We’ve assumed a **6.5% annual growth rate** for the superannuation balance, which accounts for investment returns over time.

4. How We Calculate the Superannuation Growth Each Year: Every year, your superannuation grows based on the **6.5% return**. After applying the return, the new contribution for that year is added to the balance. This process repeats for each year up to retirement.

5. Example Calculation for the First Year:

- **Cathy’s Super Balance (Year 1):**
    - Starting Balance: \46,000
    - Growth: \46,000 * 6.5% = \2,990
    - Contribution: \15,226
    - End of Year 1 Balance: **\46,000 + \2,990 + \15,226 = \64,216**
- **Alan’s Super Balance (Year 1):**
    - Starting Balance: \39,000
    - Growth: \39,000 * 6.5% = \2,535
    - Contribution: \14,823.50
    - End of Year 1 Balance: **\39,000 + \2,535 + \14,823.50 = \56,358.50**

6. Progress Over 14 Years:

- This process repeats every year. The balance grows based on the 6.5% return, and your compulsory contributions are added each year.
- After 14 years of this, Cathy’s superannuation grows to **\492,278**, and Alan’s grows to **\367,082**. Together, your superannuation balance will be approximately **\859,360** by the time you retire.

7. Retirement Income:

To calculate your sustainable annual income, we use a method that considers the ongoing 6.5% growth rate during your retirement years. This method ensures that the withdrawals and the remaining superannuation balance (\859,360) are balanced to last for 20 years.

With a starting superannuation balance of **\859,360** and a 6.5% growth rate during your retirement years, you can sustainably withdraw an annual income of approximately **\77,992**. This income assumes that your superannuation continues to earn returns while you are drawing down, allowing you to maintain a higher level of income over the 20-year period.

Summary:

By contributing only the compulsory superannuation contributions, you'll have **\859,360** in superannuation at retirement, which will provide you with an annual income of around **\77,992** for 20 years. This approach allows you to fund your retirement comfortably while taking advantage of investment growth.

Question 4:

Your clients have a significant amount of short-term debt that they need help in managing. Conduct an analysis of their current financial position (including financial statements and projections) and suggest a strategy to reduce their short-term debt. Illustrate the impact on their financial analysis if the strategy is implemented. Conduct a five-year projected cash flow budget and discuss the impact of your strategy on the savings ratio and net worth ratio.

Answer. Cathy and Alan, let's begin by analysing your current financial position, understanding your debt situation, and creating a strategy to improve it.

1. Current Financial Position Analysis:

Assets and Liabilities:

- **Assets:**
    - Home and contents: \1,650,000
    - Cash in savings: \4,000
    - Telstra shares: \9,200
    - Superannuation (Client A): \46,000
    - Superannuation (Client B): \39,000
- **Liabilities:**
    - Mortgage: \670,000 (annual payment: \43,350)
    - Car loans: \45,000 (annual payment: \27,500)

    - Credit card debt: \41,000
- **Total Net Worth:**
    - Net Worth = Total Assets – Total Liabilities
    - Net Worth = (\1,650,000 + \4,000 + \9,200 + \46,000 + \39,000) – (\670,000 + \45,000 + \41,000)
    - Net Worth = \1,748,200 – \756,000 = **\992,200**

2. Key Issues:

You currently have significant **short-term debt** in the form of:

- **Car loans** with high annual repayments of \27,500.
- **Credit card debt** totalling \41,000, which is likely accumulating high interest.

3. Strategy to Reduce Short-Term Debt

To address their short-term debt, we’ll implement the following strategy:

- **Debt Consolidation Loan**: Cathy and Alan can consolidate their credit card debt and car loans into one loan with a lower interest rate and longer repayment Is this possible and how to consolidate? Like refinanicing or something?period.
- **Increase Monthly Payments**: By increasing the monthly repayment amount on their consolidated debt, they can reduce the total interest paid and pay off the debt sooner.
- **Reduce Discretionary Spending**: Cutting down on entertainment and travel expenses by 75% can free up additional funds to pay down debt faster.

Impact of Strategy on Financial Position

1. **Debt Consolidation Example:**
    - If Cathy and Alan take a consolidation loan at an interest rate of **5%** over **5 years**, they could consolidate their **\86,000** (credit card + car loan) debt.
    - The monthly payment on a 5-year loan at 5% interest would be approximately **\1,622/month** or **\19,464/year**, which is lower than the combined \27,500 for car loans and the typical credit card payments.
2. **Reduction in Expenses:**
    - By cutting entertainment and travel expenses by **75%**, they save **\28,850** annually, which can be directed towards debt repayment or savings.

Cathy and Alan let's discuss the impact of the strategy we implemented and how it has improved your financial position.

The Positive Changes After Implementing the Strategy:

1. Savings Ratio:

- **Before the Strategy**: Your savings ratio was negative at **-22.09%**, which indicated that your expenses were far exceeding your net income. This situation was mainly due to your high discretionary spending and the substantial burden of debt repayments. As a result, you were consistently drawing down on your savings, which isn't a sustainable financial approach.
- **After the Strategy**: By consolidating your debts and reducing discretionary expenses by 75%, you were able to turn this around. Your savings ratio is now **3.50%** every year, meaning that you are consistently setting aside a portion of your income for savings. This positive shift creates a financial cushion that will help you better handle unexpected expenses and provide more flexibility for future investments.

2. Net Worth Growth:

- **Before the Strategy**: Your net worth was increasing each year, but the growth was relatively slow due to your significant debt burden. At the end of year five, your net worth reached **\1,444,825** with a net worth ratio of **65.65%**. However, your total liabilities remained high at **\771,000**.
- **After the Strategy**: The debt reduction strategy accelerated the growth of your net worth. By year five, your net worth increased to **\1,502,680**, and your net worth ratio improved to **67.30%**. This improvement is primarily due to efficiently reducing your consolidated debt over time, which lowered your liabilities and increased your asset base.

3. Total Assets and Liabilities:

- **Before the Strategy**: While your total assets were growing, your liabilities were also substantial, making it harder to build up your net worth quickly. By the end of year five, your liabilities were still at **\771,000**, indicating that the debt repayment progress was slow.
- **After the Strategy**: By consolidating your credit card and car loans into a single, lower-interest loan, you managed to reduce your liabilities more rapidly. Over the five years, your liabilities decreased to **\626,688**, reflecting substantial progress in paying down debt. Your total assets continued to grow steadily, primarily due to growth in your superannuation and the value of your home.

Key Takeaway:

The strategy we implemented has had a significant positive impact on your financial situation:

- You've moved from a negative savings rate to a positive one, which shows improved cash flow and spending management.

- You’ve been able to reduce your debt more effectively, thanks to lower interest rates and disciplined repayment.
- Your net worth has grown more substantially, providing you with greater financial stability and a stronger foundation for the future.

What This Means for You:

The adjustments you made have put you on a much more sustainable financial path. By continuing with this approach, you’ll be better positioned to achieve your long-term goals, whether it’s planning for Cindy’s education, saving for retirement, or investing in other opportunities.

Question 5:

You have done a risk profile on your clients and assessed them as a conservative risk profile; however, their investments are more in the aggressive category. Explain this mismatch to your clients and suggest a strategy to adjust their asset allocation to match their risk level.

Answer. Cathy and Alan, I want to take a moment to discuss an important observation regarding your current investment portfolio and your risk tolerance.

Understanding Your Risk Profile:

Based on the risk profile assessment we conducted, it’s clear that both of you fall into a **conservative risk category**. This means you are more comfortable with stable and lower-risk investments, and you prioritize capital preservation over potentially higher returns that come with more volatility.

Current Situation – Mismatch in Risk Level:

However, upon reviewing your current investments, we noticed that your portfolio is more aligned with an **aggressive investment strategy**. This typically involves a higher proportion of growth assets like equities or higher-risk funds. While these investments offer the potential for higher returns, they also come with greater market volatility and risk, which may not align well with your comfort level or financial goals.

Why This Mismatch Matters:

- **Emotional Stress**: When investments fluctuate significantly, it can cause undue stress and anxiety, particularly if you are not comfortable with market volatility. This stress could lead to impulsive decisions to sell during downturns, which might impact your long-term financial outcomes.
- **Capital Preservation**: Being conservative, you both value capital preservation over aggressive growth. A mismatch in asset allocation could mean taking on more risk than you’re willing to tolerate, which can affect your confidence in your financial plan.

Proposed Strategy – Aligning Your Portfolio with Your Risk Profile:

Here’s what I suggest bringing your portfolio in line with your conservative risk profile:

1. **Rebalance Your Asset Allocation**:
    - We’ll gradually shift a portion of your current investments from aggressive, high-risk assets into more conservative investments. This can include **fixed income assets like bonds, cash investments, and conservative managed funds**. These options provide a more stable return and are less susceptible to market volatility.
2. **Diversify with Defensive Assets**:
    - Increasing your exposure to defensive assets will help lower the risk in your portfolio. This could include a combination of **government bonds, high-quality corporate bonds, dividend-paying stocks with low volatility, and term deposits**. These options provide a steady income and help protect your capital.
3. **Maintain Some Growth Exposure**:
    - Although we’ll be reducing risk, it’s essential to keep a modest allocation to growth investments to counter inflation and grow your wealth gradually over time. We can aim for a balanced portfolio with a **70% allocation to conservative assets** and **30% to growth assets** like diversified index funds or blue-chip shares. This will offer some growth potential without taking on excessive risk.
4. **Regular Portfolio Reviews**:
    - To ensure that your portfolio continues to align with your risk profile and goals, we’ll conduct regular reviews. If your risk tolerance or goals change over time, we can adjust 20,40,40
      Post rebalanceaccordingly.

The Goal:

By adjusting your asset allocation to match your conservative risk profile, we can achieve several benefits:

- **Reduced Volatility**: This will lower the fluctuations in your portfolio, helping you feel more comfortable and confident with your investments.
- **Capital Protection**: A more conservative strategy aligns with your preference for capital preservation, ensuring that your hard-earned savings are not exposed to unnecessary risk.
- **Steady Returns**: Although the potential returns may be lower than with an aggressive strategy, this approach will provide more consistent returns that align with your financial goals.

Next Steps:

If you agree with this approach, I will prepare an updated asset allocation plan that reflects these changes. We can then schedule a meeting to review and finalize the adjustments.

Let me know if you have any questions or if there’s anything else you’d like to explore further. My aim is to ensure you’re comfortable and confident with your investment strategy!

Question 6:

Alan has a family history of heart disease and is concerned about the impact on his family should he die prematurely. Conduct a risk management assessment for your clients and suggest a strategy to alleviate these concerns. Assume that the clients have already disposed of their liquid assets to pay down their short-term debt. The insurance would need to cover the basic costs for the surviving parent until retirement age and private school fees until the child finishes school. Also, assume that final expenses are \24,000, they will repay the mortgage and retain the house. How often should you conduct this risk assessment and why? Would you also recommend TPD insurance? If so, how much would you recommend?

Answer. Risk Management Assessment

Summary of Needs Analysis:

- **Cathy's Living Expenses**: \78,500 per year for 14 years, totalling \1,099,000.
- **Cindy's Private School Fees**: \25,300 per year for 3 years, totalling \75,900.
- **Less Cathy's Income**: Cathy earns \92,800 after tax per year, which exceeds the annual living expenses. Therefore, the total "cost" or support income requirement is negative (-\124,300).
- **Final Expenses**: \24,000.
- **Outstanding Debts**: \670,000 for the mortgage.
- **Total Expenses**: \694,000.
- **Recoverable Amounts**: \123,000 from Alan’s super (\39,000) and life insurance (\84,000).
- **Additional Insurance Required**: \571,000 to cover all costs effectively.

Strategy to Alleviate Concerns:

1. **Additional Life Insurance**: Alan should obtain an additional **\571,000** in life insurance coverage. This amount is based on covering the remaining mortgage, school fees, and final expenses while ensuring Cathy has adequate financial security until her retirement.

2. **Total and Permanent Disability (TPD) Insurance**: Given Alan's family history of heart disease, there's a reasonable risk that he could face a long-term disability. In such a case, Alan would be unable to contribute income towards the family. TPD insurance is therefore essential.

    To determine the appropriate amount of TPD insurance, the goal is to cover the same costs as the life insurance requirement but without deducting final expenses (since TPD scenarios don't involve death-related costs). This would suggest that Alan should consider TPD coverage of around **\571,000** to cover living expenses, the mortgage, and education costs in case he becomes permanently disabled.

1. **Private Health Insurance**: Alan does not currently have private health insurance, despite his family history of heart disease. Private health insurance could provide access to better healthcare options, early interventions, and treatments. This proactive measure could help mitigate the health risk associated with Alan's family history.

Frequency of Risk Assessment:

You should conduct this risk assessment **annually** or whenever there is a significant change in the family's financial situation, health, or life events. The primary reasons for conducting an annual risk assessment include:

1. **Changes in Income and Expenses**: As income levels or expenses change, the amount of insurance coverage needed may also change.
2. **Health Changes**: Alan has a family history of heart disease, so regular assessments will ensure adequate coverage as health conditions evolve.
3. **Changes in Liabilities**: New debts, changes in mortgage terms, or additional loans require updated insurance coverage to ensure all liabilities are adequately covered.
4. **Adjusting to Life Events**: Major life changes like Cindy completing school or Cathy and Alan approaching retirement age might reduce or increase the required coverage.

Recommendation for TPD Insurance:

Yes, I would recommend **Total and Permanent Disability (TPD) insurance** for Alan. Given his family history of heart disease, there is a potential risk that Alan could face long-term disability, which would impact the family's financial stability if he were unable to work.

Recommended TPD Insurance Amount:

Alan should consider obtaining TPD insurance for approximately **\571,000**. This amount covers:

- The basic living expenses for Cathy and Cindy until Cathy retires.
- Outstanding debts like the mortgage to ensure that Cathy can maintain her standard of living even if Alan can no longer contribute income.
- The financial buffer required to cover Cindy's education costs.

This approach ensures that in the event of Alan's disability, the family's financial needs are met without causing undue financial stress.

Question 7:

Estimate the income tax payable for each client as of 30 June 2024. Include in your analyst the impact of the sale of the Telstra shares at 30 June 2024. The proceeds of the shares should be equally split between Cathy and Alan. Your answer should include an estimation of medicare costs.

Answer. Estimate of the income tax payable for each of you, Cathy and Alan, as of 30 June 2024, is as follows,

1. Telstra Shares:

- **Purchase Price**: \8,085
- **Sale Price**: \9,200
- **Net Capital Gain**: \1,115
- **50% Capital Gains Tax Discount**: Since the shares were held for more than 12 months, only 50% of the gain is taxable:
    - Taxable Capital Gain = \1,115 × 50% = \557.50.
    - This gain is split equally between Cathy and Alan:
        - **Cathy's Taxable Share**: \278.75
        - **Alan's Taxable Share**: \278.75

2. Cathy's Taxable Income and Tax Payable:

- **Primary Income (Cathy)**: \132,400
- **Capital Gain**: \278.75
- **Total Taxable Income**: 132,400 + 278.75 = 132,678.75

Income Tax Calculation:

- **Income Tax**: \34,158.14

Medicare Levy:

- Medicare Levy is calculated as 2% of taxable income

132,678.75 = 2,653.58

Medicare Levy Surcharge:

- Cathy and Alan, you do not have private health insurance, so you are subject to the **Medicare Levy Surcharge** at **1.25%**, since your combined income exceeds \222,000.
    - **Cathy's Medicare Surcharge**: 132,678.75 % = 1,658.48

Total Tax Payable for Cathy:

- **Income Tax**: \34,158.14
- **Medicare Levy**: \2,653.58
- **Medicare Levy Surcharge**: \1,658.48
- **Net Tax Payable** : 34,15814+2,65358+1,65848=38,47020

3. Alan's Taxable Income and Tax Payable:

- **Primary Income (Alan)**: \86,000
- **Secondary Income (Alan)**: \42,900
- **Capital Gain**: \278.75
- **Total Taxable Income**: 86,000 + 42,900 + 278.75 = 129,178.75

Income Tax Calculation:

- **Income Tax**: \32,863.14

Medicare Levy:

- Medicare Levy is calculated as 2% of taxable income:

129,178.75 = 2,583.58

Medicare Levy Surcharge:

- Alan's **Medicare Levy Surcharge** at 1.25%:

129,178.75 % = 1,614.73

Total Tax Payable for Alan:

- **Income Tax**: \32,863.14
- **Medicare Levy**: \2,583.58
- **Medicare Levy Surcharge**: \1,614.73
- **Net Tax Payable**:

$32,863.14 + 2,583.58 + 1,614.73 = 37,061.45

Summary of Tax Payable:

1. **Cathy**:
    - Total Taxable Income: **\132,678.75**
    - **Net Tax Payable**: **\38,470.20**
2. **Alan**:
    - Total Taxable Income: **\129,178.75**
    - **Net Tax Payable**: **\37,061.45**

Both of you are subject to the **Medicare Levy Surcharge** due to your combined income exceeding the threshold of \222,000, and you do not have private health insurance.

Question 8:

Illustrate to your clients their aged care pension entitlements if they retire with \385,000 in superannuation, \167,000 in financial assets and own their own home outright. They also expect to earn \15,000 p.a. in income during their retirement.

Answer. Cathy and Alan let's discuss how your financial situation will impact your Age Pension entitlements when you retire. Understanding this will help you plan your retirement income more effectively.

Step 1: Assessable Financial Situation

- **Financial Assets**: \167,000
- **Superannuation**: \385,000
- **Total Assets (for the assets test)**: \552,000
- **Expected Annual Income**: \15,000

Step 2: Deemed Income Calculation (Using Deeming Rates)

According to the deeming rules, financial assets are assessed based on a deemed income rate, regardless of the actual income earned. Here are the rates:

- **0.25%** on the first **\103,800**.
- **2.25%** on the amount above **\103,800**.

Deemed Income Calculation:

1. **On the first \103,800 (at 0.25%)**:

    $103,800 % = 259.50 per year

1. **On the remaining \63,200 (at 2.25%)**:

$63,200 % = 1,422 per year

1. **Total Deemed Income (from financial assets)**:

259.50 + 1,422 = 1,681.50 per year

1. **Fortnightly Deemed Income**:

1,681.5026 = 64.67 per fortnight

Step 3: Income Test Calculation

1. **Expected Retirement Income**: Cathy and Alan expect to earn \15,000 annually, or **\576.92 per fortnight**.
2. **Total Assessable Income**: This includes their expected income and deemed income from financial assets:

576.92 + 64.67 = 641.60 per fortnight

1. **Threshold for Couples**: The income threshold for a full pension for couples is **\372 per fortnight**.
2. **Excess Income**:

    $641.60 - 372 = 269.60 (excess income per fortnight)

1. **Pension Reduction (Income Test)**: The pension reduces by **25 cents for every dollar** of excess income:

    269.60 = 67.40 (reduction per fortnight per couple)

1. **Fortnightly Pension Based on Income Test**:

862.60 - 67.40 = 795.20 (per fortnight per person)

Step 4: Assets Test Calculation

For the assets test, Cathy and Alan are homeowners, and their assessable assets (excluding the home) total **\552,000**.

- **Assets Test Threshold (for homeowners)**: \470,000(Slides Topic 8 Social s...).
- **Excess Assets**:

    552,000 - 470,000 = 82,000

- **Pension Reduction (Assets Test)**: The pension reduces by **\1.50 per fortnight for every \1,000** over the threshold:

82,000/1,000 = 123 (reduction per fortnight per couple)

- **Fortnightly Pension Based on Assets Test**:

    862.60 - 123 = 739.60 (per fortnight per person)

Step 5: Final Pension Entitlement

Centrelink uses the lower amount resulting from the income and assets tests. In this case:

- **Pension Based on Income Test**: **\795.20 per fortnight per person**.
- **Pension Based on Assets Test**: **\739.60 per fortnight per person**.

Since the assets test provides the **lower pension** amount, the final pension entitlement would be:

- **Final Pension**: **\739.60 per fortnight per person**, or **\1,479.20 combined per fortnight**.

Annual Pension Entitlement:

- **Annual Pension Income**:

739.60 = 19,229.60 per person annually

- For both Cathy and Alan combined:

19,229.60 = 38,459.20per year (combined)

- **Add Expected Annual Income**:

  38,459.20 + 15,000 = 53,459.20 (total annual retirement income)

Conclusion:

Based on your financial situation, Cathy and Alan, your combined Age Pension entitlement will be **\739.60 per fortnight per person**, or **\38,459.20 per year combined**. Including your expected retirement income, your total annual income will be **\53,459.20**.

This provides a secure income stream to support your lifestyle during retirement. Let me know if you'd like to explore any strategies to optimize your pension entitlements or adjust your financial plan!

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