

Examination Booklet

Diploma of Financial Services (Financial Planning)

Module 4: Wealth Creation & Retirement Planning

Practice Exam

(2008/2009 Financial Year January)

This is a closed book exam.

Time allowed is 90 minutes.

- Question 1** Successive governments have addressed our ageing population with a three tiered approach to retirement funding. What are the three tiers?
- I. Compulsory employer contributions to super
 - II. Means Testing of the Age Pension
 - III. Reducing the Marginal Tax Rates
 - IV. Government incentives for retirement savings
- a) I, II and III
 - b) I, II and IV
 - c) II, III and IV
 - d) I, III and IV
- Question 2** Which Commonwealth body is responsible for regulation of companies, securities and futures under the Corporations Act (2001)?
- a) ASIC
 - b) APRA
 - c) ATO
 - d) RBA
- Question 3** How does the SIS Act address the issue of trustees of super funds acting in accordance with the rules?
- a) By checking all transactions of the fund to ensure compliance with the requirements
 - b) By checking all transactions above \$25,000 to ensure compliance with the requirements
 - c) By checking that investment decisions made by trustees are appropriate for the members affected by the decisions
 - d) By clearly codifying what trustees are obliged to do

- Question 4** Which of the following is NOT a provision of the SIS Act?
- a) The trustees' sole duty is to act in the best interest of the beneficiaries
 - b) Trustees and investment managers are subject to legislative sanctions to ensure proper performance of their fiduciary duties and accountability to members
 - c) Mechanisms are provided to deal with employer-sponsored fund benefits from members who have left employment and for unclaimed benefits
 - d) Anyone over the age of 16 is able to act as a fund trustee
- Question 5** According to the SIS Act all regulated superannuation funds are required to have an investment strategy. Under SIS, which of the following does NOT need to be considered?
- a) Appropriate levels of risk and return
 - b) Diversification
 - c) Age of investors
 - d) Adequate liquidity
- Question 6** A trust deed can also be referred to as:
- a) Deed of adoption
 - b) Approved trustee
 - c) Deemed inclusions
 - d) Governing rules of the fund
- Question 7** XYZ Superannuation Fund's trust deed predates the SIS legislation, and as such does NOT make provision for complying with SIS requirements. Consequently, how is XYZ Superannuation Fund treated under SIS?
- a) It may continue to operate under the original trust deed
 - b) It may continue to operate under the original trust deed, so long as 'no material change' is made to the deed
 - c) Under the SIS Act the Fund is deemed to have the various SIS rules included in its trust deed
 - d) All pre SIS trust deeds needed to be rewritten within the first year of SIS's operation in order to comply with SIS requirements

- Question 8** Who is the legal owner of the assets held in a super fund?
- a) The members
 - b) The employer making the payments on behalf of his/her employees
 - c) APRA
 - d) The trustees
- Question 9** Trustees of superannuation funds have various duties and rights. Which of the following is NOT a duty or right of the trustee?
- a) The duty to ensure that all money received is properly accounted for
 - b) The duty to deal properly with any forfeited benefits
 - c) The right to delegate discretionary powers
 - d) The duty to act impartially among beneficiaries
- Question 10** The Superannuation Complaints Tribunal (SCT) can review trustee decisions. These decisions can be overturned if the SCT is of the view that the initial decision was:
- a) In conflict with the express wishes of the deceased
 - b) Unfair and unreasonable
 - c) Prejudicial to the claims of the known potential beneficiaries
 - d) Not fully considered and as such failed to take all the facts into account
- Question 11** Which type of superannuation fund is excluded from some SIS requirements but is fully regulated by the ATO with regards to legal compliance?
- a) Public offer funds
 - b) Public sector and industry funds
 - c) Retirement Savings Accounts (RSAs)
 - d) Self managed superannuation funds (SMSFs)
- Question 12** Which type of superannuation fund has a maximum of four members?
- a) Public sector and industry funds
 - b) Public offer funds
 - c) Self managed superannuation funds (SMSFs)
 - d) Retirement savings accounts (RSAs)

- Question 13** What type of fund is more likely to ensure a reserves policy is in place to cover shortfalls in the superannuation fund's performance?
- a) Defined benefit fund
 - b) Self managed super fund
 - c) Accumulation fund
 - d) Small APRA fund
- Question 14** An advantage of taking your retirement balance as a lump sum, if under 60 is:
- a) You do not have to pay any rollover tax
 - b) That you will be eligible for a deductible amount on the funds cashed out
 - c) That any one off capital expenses, such as an outstanding mortgage, can be paid out immediately
 - d) That you can vary your income amounts when the money is eventually used to start an income stream
- Question 15** Garry recently died. He was financially supporting his father Brian at the time of his death. Is Brian likely to be considered as a recipient of Garry's superannuation funds?
- a) No, as Brian is not the deceased's child or spouse
 - b) No, as Brian is not eligible to be considered a financial dependent
 - c) Yes, as Brian is eligible to be considered a financial dependant
 - d) Yes, as all parents are considered to be dependant irrespective of the financial relationship they have with the deceased

- Question 16** A 66 year old retiree has \$700,000 in an account based pension, generating an income of \$40,000 per annum. If the client was forced to declare bankruptcy, how would the pension be treated?
- a) The trustee would have access to any of the capital that was over the lump sum RBL
 - b) The trustee would be able to access half the capital amount, in lieu of the income it would generate later
 - c) Using the stipulated discount rate, the trustee would calculate the NPV of the future income stream coming from the pension. The trustee would then be able to access that amount
 - d) The trustee would assess the income being generated by the pension, and would only have access to the capital amount if contributions were made to avoid creditors (after 28 July 2006)
- Question 17** Who does the Family Law Legislation Amendment (Superannuation) Act 2001 apply to?
- a) Married or formerly married couples
 - b) De facto couples
 - c) Homosexual couples
 - d) Both married or formerly married couples and de facto relationships
- Question 18** Which of the following is true in regards to personal superannuation contributions by persons aged between 65 and 74?
- I. Eligible to contribute if they've been gainfully employed for at least 30 hours over a consecutive 40 day period during the financial year
 - II. Eligible to contribute if they've been gainfully employed for at least 40 hours over a consecutive 30 day period during the financial year
 - III. Having satisfied the hours of work condition, they can contribute for the rest of the financial year regardless of work status
 - IV. Having satisfied the hours of work condition, they can only contribute in the following month
- a) I and III
 - b) II and IV
 - c) I and IV
 - d) II and III

- Question 19** Nolene's superannuation balance has just increased by \$40,000 and is made up of:
- \$5,000 transferred from her bank account, \$20,000 from her employer (net of contributions tax), and \$15,000 transferred to her current super fund from her old AXA fund.
- How much of the total \$40,000 was a contribution and how much was a rollover?
- a) Rollover of \$35,000; contribution of \$5,000
 - b) Rollover of \$15,000; contribution of \$25,000
 - c) Rollover of \$5,000; contribution of \$35,000
 - d) Rollover of \$25,000; contribution of \$15,000
- Question 20** Which of the following clients is eligible to receive the Government Co-contribution?
- a) Jennifer, aged 35, is substantially self-employed earning an annual income of \$70,000. She makes a personal contribution into her super fund
 - b) Maria, aged 50, owns a business which produces earnings of \$40,000 pa. She also has a full time position and earns \$30,000 pa. She receives a spouse contribution into her super fund
 - c) Andrew, aged 45, has a taxable income of \$50,000 comprising \$48,000 from employment and \$2,000 from his investments. He makes a personal after tax contribution to his super fund
 - d) Ethan, aged 40, is full time employed and earns \$50,000 pa. He salary sacrifices \$5,000 into his super fund
- Question 21** Generally, where an employer is able to claim a tax deduction for a contribution the superannuation fund will then deduct:
- a) 20% contributions tax
 - b) 25% contributions tax
 - c) 15% contributions tax
 - d) 45% contributions tax

- Question 22** Contribution caps for a person aged 65 and over but less than 75, for this financial year, are:
- a) CC cap = \$100,000, NCC cap = \$150,000
 - b) CC cap = \$100,000, NCC cap = \$150,000 (or a three year limit of \$450,000)
 - c) CC cap = \$150,000, NCC cap = \$100,000
 - d) CC cap = \$50,000, NCC cap = \$150,000 (or a three year limit of \$450,000)
- Question 23** Aaron is a self-employed painter. He makes a contribution to his super fund and claims a tax deduction. What type of contribution has Aaron made?
- a) Personal after tax contribution
 - b) Salary sacrifice contribution
 - c) Deductible personal contribution
 - d) Super Guarantee contribution
- Question 24** The 15% super fund tax does NOT need to be paid on which of the following contributions?
- a) Payments made by an employer under an industrial award
 - b) Payments made by an employer under Super Guarantee requirements
 - c) Contributions made by an employer on an employee's behalf for salary sacrifice.
 - d) Personal contributions made by an employee from funds in a bank account
- Question 25** Which of the following best describes an Other Termination Payment?
- a) That part of a bona fide redundancy or approved early retirement scheme in excess of the tax free portion
 - b) Lump sums that are taxable in the recipient's hand and may be subject to special tax rates
 - c) A lump sum from a superannuation fund that is a complying fund
 - d) A lump sum paid to an individual in consequence of cessation of employment with a particular employer, irrespective of the reason

- Question 26** Which one of the following is classified as a restricted non-preserved superannuation benefit?
- a) Fund earnings accrued on or after 1 July 1999
 - b) Personal after tax contributions made prior to 1 July 1999
 - c) Superannuation Guarantee Contributions
 - d) Employer ETPs rolled over on or after 1 July 2004
- Question 27** The 'crystallised segment' of the Tax Free component of superannuation comprises:
- I. Undeducted contributions
 - II. The crystallised pre July 1983 component
 - III. The crystallised post July 1983 component
 - IV. The post June 1994 invalidity component
 - V. The CGT exempt component
- a) I, II, IV and V
 - b) I, II, III and V
 - c) I, II, III and IV
 - d) I, II and III
- Question 28** Grace is 37 years old and self-employed. She has just won lotto and has decided to contribute \$150,000 to her super fund. She claimed no deduction for this contribution. Under current law, when she retires at age 57 what will be the tax on the \$150,000 if she withdraws it?
- a) Nil, as it is an personal after-tax contribution and forms part of the Tax Free component upon contribution
 - b) Nil up to the first \$140,000 and the remaining \$10,000 is taxed at 15% (plus Medicare Levy of 1.5%)
 - c) Taxed at 15% upon withdrawal (plus Medicare Levy of 1.5%)
 - d) Taxed at 30% upon withdrawal (plus Medicare Levy of 1.5%)

- Question 29** Any lump sum withdrawal from a member's superannuation interest will be taken from:
- a) Taxable and Tax Free components in the same proportion of the total
 - b) First from the Taxable component and then from the Tax Free component
 - c) Taxable and Tax Free components as designated by the member
 - d) First from the Tax Free component and then the Taxable component
- Question 30** Joanne has made non-concessional contributions of \$35,000 and concessional contributions of \$15,600 (net) to her super fund this financial year. Her super components at the end of the previous financial year are:
- Tax Free - \$25,000
Taxable - \$85,000
- What are the new components of her super fund after this financial year's contributions?
- a) \$60,000 Non-concessional and \$100,600 Concessional
 - b) \$60,000 Tax Free and \$100,600 Taxable
 - c) \$25,000 Tax Free, \$85,000 Taxable, \$15,600 Concessional and \$35,000 Non-concessional
 - d) \$25,000 Tax Free and \$135,600 Taxable
- Question 31** AnnMaree has recently died. She had \$320,000 accumulated in her AMP super fund. Her fund also had a \$600,000 life insurance policy on her life. What is the tax treatment of the \$920,000 lump sum payout if paid to her daughter Melanie (age 24) who is financially dependant?
- a) The entire amount will be taxed at 16.5% on any taxed element and 31.5% on any untaxed element
 - b) The Tax Free component would be tax free and the Taxable component would be taxed at 16.5% on any taxed element and 31.5% on any untaxed element
 - c) The entire amount will be tax free
 - d) \$320,000 tax free and \$600,000 taxable

- Question 32** For tax purposes, some dependants are unable to commence or continue a pension on death. Which of the following would fall into this category?
- a) A financially dependent disabled child (25 or over)
 - b) A child (under 18)
 - c) A financially dependant child (25 or over)
 - d) A financially dependant child (between 18 and 25)
- Question 33** A life annuity can best be described as:
- a) A contract between a provider and a client, where the provider pays an agreed amount of income until the client dies
 - b) An account which allows the client to determine and amend income during his/her life
 - c) An account which allows the client to determine and amend income during the life of his/her funds
 - d) A contract between a provider and a client, where the provider pays an agreed amount of money for an agreed number of years
- Question 34** Which of the following is NOT true in regards to account based/allocated pensions?
- a) The pension levels are calculated each year using the remaining term of the pension
 - b) They must be paid at least annually
 - c) If purchased on or before 1 June in any year, there is no minimum pension payment required for that financial year
 - d) Minimum annual payments are determined by statutory levels, based on the pensioner's age

- Question 35** Dennis (aged 63) is married to Anne (aged 60). Dennis has purchased a complying term allocated pension, prior to 20/09/2007, with Anne nominated as the reversionary beneficiary. Which one of the following would have been a permissible term for the income stream?
- I. 19 years
 - II. 26 years
 - III. 30 years
 - IV. 40 years
- a) I and II only
 - b) II, III and IV only
 - c) I, II and III only
 - d) II and III only
- Question 36** Stanley is aged 65 and retired. He commenced a complying income stream mid July 2007 in order to access the Age Pension. Assuming all other required criteria were met, which one of the following income streams would have been considered complying for Stanley to benefit from Centrelink's asset test exempt treatment?
- a) A lifetime immediate annuity with a guarantee period of 10 years
 - b) A term allocated pension for 40 years
 - c) A term allocated pension for 5 years
 - d) A fixed term annuity for 20 years
- Question 37** In which of the following circumstances is a pro-rata payment NOT required in the first year for a term allocated pension?
- a) If it is commenced on 31 December
 - b) If it is commenced on 15 June
 - c) If it is commenced on 1 January
 - d) If it is commenced on 1 April

- Question 38** Greg (aged 55) retired on 1 July 2008 and has rolled his super money to an account based pension. His balance included Tax Free and Taxable components. His deductible amount for taxation purposes is:
- a) His Tax Free amount
 - b) His Tax Free amount divided by his current pension balance multiplied by 100
 - c) His Tax Free amount divided by the term of the allocated pension
 - d) Nil
- Question 39** A client, aged 63 at retirement, had a Tax Free component of \$100,000 in her superannuation. On 1 July 2007 she purchased a Life Annuity with a 10 year guaranteed payment period with these funds. At the commencement of the income stream she had a life expectancy of 23 years. Assuming she was to live beyond her life expectancy, under current rules, what would her taxation deductible amount be?
- a) \$10,000
 - b) Not applicable as all the income from her annuity will be tax free
 - c) \$4,348
 - d) \$0 - since annuitants who live longer than their life expectancy are not allowed to claim any deductions based on the management of their income stream/s
- Question 40** Which of the following is a broad distinction between Centrelink allowances and pensions?
- a) Pensions are intended to be temporary payments, whereas allowances are expected to be longer term payments
 - b) Allowances are generally taxed at a higher rate
 - c) Pensions are generally taxed at a higher rate
 - d) Allowances are intended to be temporary payments, whereas pensions are expected to be longer term payments
- Question 41** Which of the following is NOT a condition of eligibility for the Newstart Allowance?
- a) Must be over 55 years of age, but less than Age Pension age
 - b) Must be registered as unemployed
 - c) Must be willing and capable of undertaking work
 - d) Must be at least 21 years of age

- Question 42** Which one of the following statements is true in regards to the Centrelink assets test?
- a) If the person's assessable assets are above the upper limit, the Age Pension payment is reduced by \$1.50 for every \$1,000 of assessable assets over the limit
 - b) The Newstart Allowance payment will be cut out once the person's assessable assets are above the upper limit
 - c) Allowances and pensions use the same method for adjusting any payment made
 - d) If the person's assessable assets are above the lower limit, the Age Pension payment is reduced by \$1.50 pf for every \$1,000 of assessable assets over the limit
- Question 43** An Age Pensioner couple has total Centrelink assessable income of \$26,000 per annum. The maximum fortnightly Age Pension payable for each person of a couple is \$456.80. What is the actual fortnightly Age Pension benefit they will EACH receive (to the nearest dollar)?
- a) \$154
 - b) \$307
 - c) \$606
 - d) \$303
- Question 44** Which of the following is assessable under the Centrelink assets test?
- I. Managed funds
 - II. An investment property purchased less than 12 months ago
 - III. Superannuation funds where the person is under Age Pension age
- a) I only
 - b) II and III only
 - c) I and II only
 - d) I, II and III

- Question 45** Which of the following investments is included under the deeming and/or extended deeming rules?
- a) Superannuation amounts in the accumulation phase
 - b) Investment properties
 - c) Shares
 - d) Income streams (term is more than 5 years)
- Question 46** In relation to the Centrelink assets test, which of the following assets is NOT an assessable asset?
- a) Managed investments
 - b) Household contents and personal effects
 - c) Collections for trading, investments or hobby purposes
 - d) Principal place of residence on 2 hectares of land
- Question 47** Charles is receiving the Age Pension. He has given his granddaughter \$15,000 to help pay for her HELP. From a Centrelink perspective, how will Charles' gift be treated?
- a) He is not yet over the gifting limit, since he can gift \$30,000 over a five year period
 - b) \$5,000 will be assessed as a 'deprived' asset for the next five years and his Age Pension payment rate will be adjusted as if he still owned the \$5,000
 - c) He is over the gifting limit, but can inform Centrelink that he will not be gifting any further funds for the next 2 years, and so keep within the \$30,000 over a five year period
 - d) He is below the gifting limit of \$30,000 per annum
- Question 48** Under the Centrelink assets test, which of the following income streams will be classified as 100% assets test exempt?
- a) Term allocated pensions commenced before 20 September 2004
 - b) Term allocated pensions commenced on or after 20 September 2004
 - c) Lifetime and life expectancy income streams commenced before 20 September 2004
 - d) Lifetime and life expectancy income streams commenced on or after 20 September 2004

Question 49

Your client, Greg is in his 50s. You ask him about the health of his parents. From a financial planning perspective, this is:

- a) Inappropriate, since Greg's parents are not your clients
- b) Appropriate, because a history of longevity in the family might affect the length of time Greg's funds will need to last
- c) Appropriate, since it is a useful way to introduce a discussion about health insurance with Greg
- d) Inappropriate, as it is inappropriate to discuss any possible inheritance with a client

Question 50

Brenda and Glenn are very keen on having enough money for a big retirement trip around Australia. They intend to return to their home once the trip is over, but it will be unoccupied during their 6 month trip. They are also looking to purchase a new 4WD vehicle specifically for the trip. The most important item to discuss with them is:

- a) What they plan to do with the remaining years of their retirement and whether they will be able to fund their lifestyle.
- b) To inform their insurance company that the property will be unoccupied, in order to arranged special insurance cover for their home
- c) To ensure that their health insurance is maintained
- d) To ensure that their new car, and even a caravan is adequately insured for the trip

Appendix: Rates

Tax Rates 2008/09

Taxable Income	Tax on This Income
\$0 to \$6,000	Nil
\$6,001 to \$34,000	15c for each \$1 over \$6,000
\$34,001 to \$80,000	\$4,200 plus 30c for each \$1 over \$34,000
\$80,001 to \$180,000	\$18,000 plus 40c for each \$1 over \$80,000
\$180,001 +	\$58,000 plus 45c for each \$1 over \$180,000

Medicare Levy 2007/08

Single Taxable Income	Family Taxable Income	Medicare Levy
\$0 - \$17,309*	\$0 - \$29,207*	Nil
\$17,309 - \$20,363	\$29,207* - \$34,360	10% of taxable income over lower threshold
\$20,364 +	\$34,361^	1.5%

* The lower income limit increases by \$2,682 per dependent child these thresholds are indexed annually. The 2008/09 thresholds will be available in May 2009 when indexation factors are known.

Low Income Tax Offset (from 1 July 08)

Tax Offset	Max Offset	Shade-Out Taxable Income	Rate of Reduction
Low Income	\$1,200	\$30,000 - \$60,000	\$0.04 per \$1.00

Minor Tax Rates

Eligible Taxable Income	Tax on This Income
\$0 - \$416	Nil
\$417 - \$1,307	66% of excess over \$416
\$1,307+	45% of entire eligible taxable income

Corporate Tax Rate

Company Tax Rate
2001/2002 onwards 30%

Fringe Benefit Tax (FBT)

FBT
FBT Rate = 46.5%
Type 1 gross up rate = 2.0647
Type 2 gross up rate = 1.8692

Motor Vehicle Statutory Fractions

Annual Total kilometres	Statutory Fraction
<15,000	0.26
15,000 – 24,999	0.20
25,000 – 40,000	0.11
40,000+	0.07

Superannuation & Termination Payment Indexed Thresholds 2008/09

Minimum SG contribution rate	9%
Maximum quarterly SG contribution base	\$38,180
Low rate cap on taxable component	\$145,000
Untaxed plan cap	\$1,045,000
Employment termination payment cap	\$145,000
Tax free Amounts for Genuine Redundancy & Approved Early Retirement Schemes	\$7,350 + \$3,676 for each completed year of service

Other Termination Payments

Accrued Annual Leave	Maximum Tax Rate
Resignation/Retirement	
To 17/8/1993	30%*
From 18/8/1993	Marginal Rate*
Bona fide redundancy / Invalidity / Early retirement	
All	30%*

Accrued Long Service Leave	Maximum Tax Rate
Resignation/Retirement	
To 15/8/1978	5% at Marginal Rate*
16/8/1978 to 17/8/1993	30%*
From 18/8/1993	Marginal Rate*
Bona fide redundancy / Invalidity / Early retirement	
To 15/8/1978	5% at Marginal Rate*
From 16/8/1978	30%*

* Plus Medicare Levy

Tax Treatment of Employment Termination Payments

Life Benefit Termination Payments

Age at 30 June	Amount	Tax rate*
Less than 55	Within cap	31.5%
	Above cap	46.5%
55 or over	Within cap	16.5%
	Above cap	46.5%

* Includes Medicare Levy

Death Benefit Termination Payments

Recipient	Amount	Tax rate
Dependant	Within cap	Tax free
	Above cap	46.5%*
Non-tax dependant	Within cap	31.5%*
	Above cap	46.5%*

* Includes Medicare Levy

Superannuation Contribution Caps

Age	Concessional Contribution Cap	Non-concessional Contribution Cap
< 50	\$50,000	\$150,000 or a 3-year limit of \$450,000
50 and over but < 65	\$100,000*	\$150,000 or a 3-year limit of \$450,000
65 and over but < 75	\$100,000*	\$150,000
75 and over	\$100,000 (mandated employer contributions only)*	Not eligible to make non-concessional contributions

* This limit will apply up to 30 June 2012.

Spouse Superannuation Contribution Offset

Spouse's Assessable Income (AI)^	Max Rebatable contributions (MRC)	Max. Rebate 18% of lesser of:
\$10,800 or less	\$3,000	MRC or actual contributions
\$10,801 - \$13,799	$\$3,000 - (AI^{\wedge} - \$10,800)$	MRC or actual contributions
\$13,800 or more	\$0	\$0

^ Plus reportable fringe benefits

Superannuation Co-contribution

Assessable Income (AI)^	Personal contribution	Co-contribution available
\$30,342 or less	Any amount	Personal contribution x 1.5 (max \$1,500)
\$30,343 - \$60,341	\$0 - \$1,000	An amount equal to the lesser of: - Personal contribution x 1.5, or - $\$1,500 - [0.05 \times (AI^{\wedge} - \$30,342)]$
\$30,343 - \$60,341	\$1,000 +	$\$1,500 - [0.05 \times (AI^{\wedge} - \$30,342)]$
\$60,342 or more	Any amount	Nil

^ Plus reportable fringe benefits

Taxation of Superannuation Benefits (Lump Sum Withdrawals)

Component	Tax treatment of lump sum withdrawals (taxed fund)	Tax treatment of lump sum withdrawals (untaxed fund)
Tax Free	Tax free	Tax free
Taxable	<ul style="list-style-type: none"> • If under age 55, taxed at 21.5%* • If aged 55 to 59, the low rate cap (\$145,000 for 2008/09) is tax-free and the balance is taxed at 16.5%* • If aged 60 and above, whole amount taxed at Nil 	<ul style="list-style-type: none"> • If under age 55, amount up to untaxed plan cap taxed at 31.5%* and the balance is taxed at 46.5%* • If aged 55 to 59, the low rate cap (\$145,000 for 2008/09) is taxed at 16.5%, amount above the low rate cap up to the untaxed plan cap taxed at 31.5% and the balance is taxed at 46.5%* • If aged 60 and above, up to the untaxed plan cap taxed at 16.5%* and the balance is taxed at 46.5%*

* Includes Medicare Levy

Taxation of Superannuation Benefits (Pension Investments)

Component	Tax treatment of pension investments (taxed fund)	Tax treatment of pension investments (untaxed fund)
Tax Free	Tax free	Tax free
Taxable	<ul style="list-style-type: none"> • If under age 55, taxable at marginal rate, nil offset • If aged 55 – 59, taxable at marginal rate, 15% pension offset • If aged 60 and above, Nil tax payable 	<ul style="list-style-type: none"> • If under age 55, taxable at marginal rate, nil offset • If aged 55 – 59, taxable at marginal rate, nil offset • If aged 60 and above, taxable at marginal rate, 10% pension offset

* Includes Medicare Levy

Superannuation Death Benefits

Death benefits paid as a lump sum

Beneficiary Type	Tax component	Tax Treatment
Dependant for tax purposes	Tax Free	Tax Free
	Taxable – taxed and untaxed	Tax Free
Non- tax dependant	Tax Free	Tax Free
	Taxable – taxed element	15.0%*
	Taxable – untaxed element	30.0%*

*Plus Medicare Levy, unless paid to the deceased's estate

Death benefits paid as a pension (eligible dependants only)

Beneficiary Type	Tax component	Tax Treatment
If either aged 60 or over	Tax Free	Tax free
	Taxable – taxed element	Tax free
	Taxable – untaxed element	Marginal tax rate, 10% offset
If both under age 60	Tax Free	Tax free
	Taxable – taxed element	Marginal tax rate, 15% offset*
	Taxable – untaxed element	Marginal tax rate, nil offset

*The income will be tax-free once the recipient reaches age 60

Income Streams

Taxation Treatment - Pre 1/7/2007 Superannuation Income Streams and Ordinary Money Annuities (no trigger event has occurred)

$$\text{Deductible Amount} = \frac{\text{Undeducted Purchase Price (UPP)} - \text{Residual Capital Value (RCV)}}{\text{Relevant Number (RN)}}$$

For Super or Employment TP income streams*, UPP is calculated as follows:

Commencement Date	UPP
Before 1/7/94	Undeducted + Pre 1/7/83 + Concessional
1/7/94 – 30/6/97	Undeducted
1/7/97 – 4/6/98	Undeducted + CGT Exempt
After 4/6/98	Undeducted + CGT Exempt + Post 30/6/94 Invalidation

* Purchased prior to 1/7/07 and under 60 years of age

Tax Free Component of Income Streams (after 1/7/07)

Age	Percentage of Tax Free Income
Under 60	$\frac{\text{Tax Free}}{\text{Pension Balance}^*} \times 100$
Over 60	100%

* Balance at commencement of the fund

Minimum Income Stream Standards

Age at start of pension and each 1 July	Percentage of account balance
Under 65	4%
65-74	5%
75-79	6%
80-84	7%
85-89	9%
90-94	11%
95 or more	14%

Life Expectancy Factors (2000/02)

Used for income streams commencing from 1/1/2005

Age	Male	Female	Age	Male	Female
50	30.39	34.51	71	13.41	16.29
51	29.49	33.58	72	12.75	15.53
52	28.59	32.66	73	12.11	14.78
53	27.69	31.73	74	11.50	14.05
54	26.80	30.82	75	10.90	13.33
55	25.92	29.91	76	10.32	12.63
56	25.05	29.00	77	9.77	11.94
57	24.19	28.10	78	9.24	11.27
58	23.34	27.21	79	8.73	10.61
59	22.49	26.32	80	8.24	9.98
60	21.66	25.44	81	7.77	9.38
61	20.84	24.57	82	7.32	8.81
62	20.04	23.71	83	6.89	8.27
63	19.24	22.85	84	6.48	7.76
64	18.46	22.00	85	6.11	7.28
65	17.70	21.15	86	5.77	6.83
66	16.95	20.32	87	5.47	6.41
67	16.21	19.49	88	5.20	6.02
68	15.48	18.67	89	4.95	5.66
69	14.78	17.87	90	4.74	5.33
70	14.08	17.08			

Term Allocated Pension – Payment Factors

Term Remaining	Payment Factor	Term Remaining	Payment Factor
60	24.94	30	18.39
59	24.82	29	18.04
58	24.69	28	17.67
57	24.55	27	17.29
56	24.41	26	16.89
55	24.26	25	16.48
54	24.11	24	16.06
53	23.96	23	15.62
52	23.80	22	15.17
51	23.63	21	14.70
50	23.46	20	14.21
49	23.28	19	13.71
48	23.09	18	13.19
47	22.90	17	12.65
46	22.70	16	12.09
45	22.50	15	11.52
44	22.28	14	10.92
43	22.06	13	10.30
42	21.83	12	9.66
41	21.60	11	9.00
40	21.36	10	8.32
39	21.10	9	7.61
38	20.84	8	6.87
37	20.57	7	6.11
36	20.29	6	5.33
35	20.00	5	4.52
34	19.70	4	3.67
33	19.39	3	2.80
32	19.07	2	1.90
31	18.74	1	1.00

Centrelink Thresholds – Age Pension (Effective from 20 March 2008)

Age Pension rates (per fortnight)

Single	\$546.80
Couple (each)	\$456.80

Pension Asset Free Areas*

Single homeowner	\$166,750
Single non-homeowner	\$287,750
Couple homeowner (combined)	\$236,500
Couple non-homeowner (combined)	\$357,500
One partner eligible homeowner (combined)	\$236,500
One partner eligible non-homeowner (combined)	\$357,500
Illness separated couple homeowner (combined)	\$236,500
Illness separated couple non-homeowner (combined)	\$357,500

* Assets over these amounts reduces the rate of pension payable by \$1.50 per fortnight for every \$1,000 above the limit (single and couple combined).

Pension Asset Cut Off Limits

Single homeowner	\$535,250
Single non-homeowner	\$656,250
Couple homeowner (combined)	\$849,500
Couple non-homeowner (combined)	\$970,500
One partner eligible homeowner (combined)	\$849,500
One partner eligible non-homeowner (combined)	\$970,500
Illness separated couple homeowner (combined)	\$973,500
Illness separated couple non-homeowner (combined)	\$1,094,500

Pension Income Test Free Areas (per fortnight)*

Single	\$132
Couple (each)	\$116
Couple (combined)	\$232
For each child add (not indexed)	\$24.60

* Income over these amounts reduces the rate of pension payable by 40c in the dollar (single) or 20c in the dollar each (for couples).

Pension Income Cut Off Limits (per fortnight)

Single	\$1,513.50
Couple (each)	\$1,265.25
Couple (combined)	\$2,530.50
For each child add (not indexed)	\$24.60

Centrelink Thresholds – Newstart Allowance (Effective from 20 March 2008)

Newstart Allowance Rates (per fortnight)

Single	\$437.10
Single (with children)	\$472.80
Single (aged 60 or over, after 9 months)	\$472.80
Couple (each)	\$394.40

Newstart Allowance Cut Off Limits

Single homeowner	\$166,750
Single non-homeowner	\$287,750
Couple homeowner (combined)	\$236,500
Couple non-homeowner (combined)	\$357,500
One partner eligible homeowner (combined)	\$236,500
One partner eligible non-homeowner (combined)	\$357,500
Illness separated couple homeowner (combined)	\$236,500
Illness separated couple non-homeowner (combined)	\$357,500

Newstart Allowance Income Test Free Areas (per fortnight)*

Single	\$62*
Couple (each)	\$62*

* F/n income between \$62 and \$250 reduces the fortnightly allowance by 50c in the dollar. F/n income above \$250 reduces the fortnightly allowance by 60c in the dollar

Newstart Allowance Income Cut Off Limits (per fortnight)

Single	\$821.84
Single (with children)	\$881.34
Single (aged 60 or over after nine months)	\$891.00
Couple (each)	\$750.67*

* Recipient partner's income which exceeds cut off point reduces the fortnightly allowance by 60c in the dollar

Centrelink Thresholds – Extended Deeming

Deeming Thresholds

Single pensioner or allowee	4.0% up to \$39,400	6.0% over \$39,400
Pensioner couple	4.0% up to \$65,400	6.0% over \$65,400
Non-Pensioner couple	4.0% up to \$32,700	6.0% over \$32,700

Income Streams – Assets & Income Test

	Assets Test	Income Test
Complying income streams	<p>Commenced <u>prior</u> to 20/09/04: = 100% exempt</p> <p>Commenced <u>after</u> 20/09/04: = 50% x account balance, or = 50% x (PP – {[PP-RCV] / RN} x yrs elapsed})</p>	<p>Annual income – Deductible Amount (DA)</p> <p>[where DA = (PP – Commutations – RCV) / RN]</p>
Defined Benefit Pensions (from large schemes – eg. CSS)	100% exempt in most cases	Annual income – Deductible Amount (DA)
Long term income streams	= account balance, or = PP – {[PP-RCV] / RN} x yrs elapsed}	Annual income - Deduction Amount (DA)
Short term income streams	= PP – {[PP-RCV] / RN} x years elapsed}	Subject to Deeming

Marking Guide

Diploma of Financial Services (Financial Planning)

Module 4:

Wealth Creation & Retirement Planning

Practice Exam

(2008/2009 Financial Year January)

Question	Answer	Topic	Learning Outcome
Question 1	B	Topic 1	Explain the rationale behind the Australian superannuation system
Question 2	A	Topic 1	Outline the legislation and regulations relevant to superannuation in Australia
Question 3	D	Topic 1	Outline the legislation and regulations relevant to superannuation in Australia
Question 4	D	Topic 1	Explain the key components and application of the SIS Act
Question 5	C	Topic 1	Outline the structure of a complying superannuation fund
Question 6	D	Topic 1	Outline the structure of a complying superannuation fund
Question 7	C	Topic 1	Outline the structure of a complying superannuation fund
Question 8	D	Topic 1	Explain the duties of a superannuation fund officer
Question 9	C	Topic 1	Explain the duties of a superannuation fund officer
Question 10	B	Topic 1	Describe the process for complaint resolution within the superannuation system
Question 11	D	Topic 2	Outline the range and characteristics of superannuation fund providers
Question 12	C	Topic 2	Outline the range and characteristics of superannuation fund providers
Question 13	A	Topic 2	Describe the two basic styles of superannuation funds
Question 14	C	Topic 2	Explain the advantages and disadvantages of the available benefit payment options
Question 15	C	Topic 2	Outline the features of superannuation products and explain their impact on a client's situation
Question 16	D	Topic 2	Briefly describe the divorce and bankruptcy contingencies to superannuation funds
Question 17	A	Topic 2	Briefly describe the divorce and bankruptcy contingencies to superannuation funds

Question 18	D	Topic 3	Identify who can contribute to a superannuation fund
Question 19	B	Topic 3	Explain the rules and implications of making superannuation contributions
Question 20	C	Topic 3	Explain the rules and implications of making superannuation contributions
Question 21	C	Topic 3	Discuss the relevant superannuation taxation issues with a client
Question 22	A	Topic 3	Understand the difference between Concessional and Non-concessional contributions
Question 23	C	Topic 3	Understand the different types of superannuation contributions
Question 24	D	Topic 3	Explain how superannuation taxation is collected
Question 25	B	Topic 4	Describe employment termination payments (TPs), other termination payments and superannuation benefits
Question 26	B	Topic 4	Understand the superannuation preservation rules
Question 27	A	Topic 4	Explain the superannuation benefit and termination payment components and taxation treatment
Question 28	A	Topic 4	Explain the superannuation benefit and termination payment components and taxation treatment
Question 29	A	Topic 4	Explain proportional drawdown
Question 30	B	Topic 4	Calculate superannuation benefit components
Question 31	C	Topic 4	Outline the considerations and assessment issues relevant to death benefits
Question 32	C	Topic 4	Outline the considerations and assessment issues relevant to death benefits
Question 33	A	Topic 5	Describe the various types of pensions and annuities available
Question 34	A	Topic 5	Describe the various types of pensions and annuities available
Question 35	B	Topic 5	Explain the features of complying income streams

Question 36	D	Topic 5	Explain the features of complying income streams
Question 37	B	Topic 5	Explain the features of complying income streams
Question 38	B	Topic 5	Explain how taxation is calculated on the different types of superannuation pensions and annuities
Question 39	B	Topic 5	Explain how taxation is calculated on the different types of superannuation pensions and annuities
Question 40	D	Topic 6	Identify the types of pensions and allowances available in Australia
Question 41	A	Topic 6	Identify the types of pensions and allowances available in Australia
Question 42	D	Topic 6	Demonstrate an awareness of the role of the financial planner in considering social security factors in the development of a statement of advice
Question 43	D	Topic 6	Demonstrate an awareness of the role of the financial planner in considering social security factors in the development of a statement of advice
Question 44	C	Topic 6	Explain the inclusions, exemptions and rationale for the income and assets tests
Question 45	C	Topic 6	Explain the inclusions, exemptions and rationale for the income and assets tests
Question 46	D	Topic 6	Explain the inclusions, exemptions and rationale for the income and assets tests
Question 47	B	Topic 6	Understand how Centrelink pension and allowance benefits are calculated using the assets and income tests
Question 48	C	Topic 6	Understand the Centrelink treatment of income streams
Question 49	B	Topic 7	Explain the role of the financial planner in client relationship management and retirement planning
Question 50	A	Topic 7	Outline and discuss the common lifestyle considerations of the pre-retiree and retiree client