

Additional General Information regarding Personal Protection

Disclaimer and Warning

The information in this document is of a general nature only. It should not be used as a source to make financial decisions. It's also important to note that the legislation and figures related to this topic tend to change regularly and therefore the information above may not reflect the current status. We recommend that if you are looking for advice on this matter, you should contact us.

How we Choose the Recommended Insurance Product

Forman Financial Services subscribe and use the computer program provided by Omnium Pty Ltd as research tool. The computer program is called OmniCover and the following details how it operates.

OmniCover uses the ratings provided by DEXX&R (formerly Rice Kachor Research).

The DEXX&R risk ratings process has been used to provide the aggregate scores used by several industry publications to determine their risk product awards. This process is currently used to determine the Money Management/DEXX&R Adviser Choice Risk Awards.

Overview of the DEXX&R Ratings Process

In each product category the relevant features, benefits and definitions are identified. Each is examined and a set of criteria is developed against which each item is scored.

The maximum point score is based on the "best" version available in the market. The maximum number of points varies for each item depending on the extent of market variation. In the simplest example an item might have a maximum score of "1" where the feature is offered and "0" where it is not offered. A complex item for which there is a wide variation in the market could be scored over a range of a maximum of "7" down to a minimum of "0" points.

Where a feature or benefit is offered as an option in some products and as a built in feature of other products we allocate a higher score where the feature is built-in. This ensures that the higher cost of an included feature is reflected in the features and benefit score.

The total number of points used to score an item may not directly correlate to the importance of that item on the final score as a weighting is applied to the raw point score for each item.

The following scoring criteria used to determine the score of each product. The relative importance of each criterion can be set within OmniCover to determine the final product score.

| Term Scoring Criteria | Scoring % | Term Plus Total and Permanent Disability Scoring Criteria | Scoring % |
|------------------------------|------------------|--|------------------|
| Financial Strength | 15 | Financial Strength | 12 |
| Product Combinations | 5 | Product Combinations | 3 |
| Term Expiry | 7 | Term Expiry | 5 |
| Premium Alternatives | 5 | Premium Alternatives | 3 |
| Guarantee of Upgrade | 7 | Guarantee of Upgrade | 4 |
| Rate Guarantees | 3 | Rate Guarantees | 3 |
| Benefit Indexation | 3 | Benefit Indexation | 3 |
| Interim Cover | 5 | Interim Cover | 3 |
| Underwriting Levels | 7 | Underwriting Levels | 4 |
| Terminal Illness Benefit | 7 | Terminal Illness Benefit | 5 |
| Term Exclusions | 15 | Term Exclusions | 10 |
| Other Included Benefits | 10 | Other Included Benefits | 4 |
| Guaranteed Insurability | 7 | Guaranteed Insurability | 4 |
| Other Optional Benefits | 4 | Other Optional Benefits | 3 |
| | | TPD Exclusions | 10 |
| | | Buy Back Option | 5 |
| | | TPD Expiry | 7 |
| | | Any TPD Definition OR (based on policy) Own TPD Definition | 10 |
| | | Activities of Daily Living Definition | 2 |

| Trauma Scoring Criteria | Scoring % | Business Expenses Scoring Criteria | Scoring % |
|--------------------------------|------------------|---|------------------|
| Financial Strength | 9 | Financial Strength | 7 |
| Product Combinations | 5 | Product Combinations | 4 |
| Maximum Cover | 3 | Benefit Periods | 4 |
| Guarantee of Upgrade | 5 | Discounts – Other | 3 |
| Rate Guarantees | 3 | Guarantee of Upgrade | 4 |
| Benefit Indexation | 5 | Smoker Criteria | 2 |
| Underwriting Levels | 5 | AIDS Criteria | 2 |
| Exclusions | 10 | Benefit Offsets | 5 |
| Buy Back Option | 5 | Worldwide Cover | 2 |
| Other Included Benefits | 4 | Benefit Levels | 4 |
| Other Optional Benefits | 4 | Exclusions / Restrictions | 6 |
| TPD | 5 | Business Expenses Covered | 6 |
| Minor Illnesses | 6 | Business Expenses Not Covered | 6 |
| Heart Disorders | 8 | Waiver of Premium | 5 |
| Stroke | 8 | Indexation of Monthly Benefit | 5 |
| Cancer | 8 | Death Benefit | 2 |
| Kidney Failure | 7 | Returning to Work in the Waiting Period | 5 |
| | | Recurrent Disability | 5 |
| | | Benefit Extension | 4 |
| | | Other Included Benefits | 5 |
| | | Optional Benefits | 5 |
| | | Total Disability Definition | 5 |
| | | Partial Disability Definition | 4 |

| Income Protection Scoring Criteria | <u>Scoring</u> % |
|---|-----------------------------|
| Financial Strength | 7 |
| Product Combinations | 2 |
| Benefit Periods | 3 |
| Guarantee of Upgrade | 4 |
| Smoker Criteria | 2 |
| AIDS Criteria | 3 |
| Exclusions | 7 |
| Benefit Offsets | 5 |
| Worldwide Cover | 2 |
| Benefit Levels | 3 |
| Underwriting Levels | 3 |
| Rehabilitation Benefits | 3 |
| Rehabilitation Expense Benefit | 3 |
| Crisis Cover | 4 |
| Bed Confinement Benefit | 2 |
| Waiver of Premium | 2 |
| No Claim Discount / Bonuses | 2 |
| Indexation of Monthly Benefit | 2 |
| Death Benefit | 2 |
| Dismemberment / Fractures | 2 |
| Transplant / Cosmetic Surgery | 2 |
| Transportation Benefit | 1 |
| Relocation Benefit | 1 |
| Cover Whilst Unemployed | 3 |
| Returning to Work in the Waiting Period | 3 |
| Recurrent Disability | 2 |
| Other Included Benefits | 4 |
| Increasing Claim Benefit | 2 |
| Guaranteed Insurability. | 3 |
| Other Optional Benefits | 3 |
| Total Disability Definition – White Collar OR (based on Policy) Total Disability Definition – Blue Collar | 5 |
| Partial Disability Definition – White Collar OR (based on Policy) Partial Disability Definition – Blue Collar | 4 |
| Guaranteed Benefits Agreed Value | 4 |

The following is the definition of the above criteria:

Financial Strength

Four criteria are taken into account in the calculation of the financial strength of each company. The following weightings are applied to each criteria:

- 25% Company Assets
- 40% Solvency Reserves
- 10% External financial strength rating
- 25% Market Share (including Discontinuances)

An overall numeric score is determined by applying these weightings to the calculated scores for each component. These overall scores are then sorted and thresholds established to achieve the criteria set for each rating.



Product Combinations

The valid benefit combinations for a product, for example, if a benefit is only available as a rider benefit. Some products also reduce the policy fee if multiple products or benefits are purchased.

Term Expiry

The age at which the term policy terminates.

Premium Alternatives

Scoring is based on the factors, which determine the basic premium structure, such as gender, smoking status, and stepped or level premium type.

Guarantee of Upgrade

This indicates whether a company will offers improvements in products to their existing policyholders.

Rate Guarantees

This indicates those guarantees, if any, that apply to the premium rates applicable at time of commencement of the policy.

Benefit Indexation

This criteria indicates the annual indexation of the sum insured by either a fixed percentage set by the company offering the product, or by the CPI. Some products have a restriction whereby if the sum insured increase is rejected on two or more consecutive occasions, the benefit will be cancelled.

Interim Cover

In some cases, the company will offer term cover for the life insured whilst the application is being underwritten. Some products have a restriction where only death by accident is covered

Underwriting Levels

Scoring is based on the levels at which certain medical and financial underwriting requirements are required. These requirements may vary by age and sum insured.

Terminal Illness Benefit

A terminal illness benefit will provide advance payment of part of the death benefit on diagnosis of a terminal disease, and where life expectancy is limited to a set period of time.

Term Exclusions

Term exclusions are those events under which the death of the life insured is not covered. The most common exclusion under a term policy is death as a result of suicide, and this may be excluded for a set period of time on commencement of the policy.

Other Included Benefits

Any other benefits that are always included in a standard policy, but have not been included in other scoring criteria are scored as "Other Included Benefits"

Guaranteed Insurability

A guaranteed insurability benefit guarantees that the insured may purchase additional amounts of life insurance regardless of health or occupation at specified times or on the occurrence of specified events in the future. This benefit may expire at a certain age.

Other Optional Benefits

Additional benefits offered for the product at an additional premium that have not been included in other scoring criteria are scored as "Other Optional Benefits"

Any TPD Definition

The Any TPD definition may be defined as:

- Being unable to perform any occupation
- Being unable to perform any occupation to which the insured is suited by education, training or experience.

Own TPD Definition

The Own occupation definition may be defined as “Unable to perform the insured’s normal occupation”. Scoring on this criteria heading is based on whether the Own occupation definition is offered by the product, as well as limitations on the definition. Limitations may include where specific illnesses are excluded, or if the definition changes after 2-3 years after disablement.

TPD Exclusions

TPD exclusions are those events under which the TPD life insured is not covered such as intentional self inflicted injury.

Buy Back Option

Conditions under which after a TPD event, the term policy can be reinstated.

TPD Expiry

The age at which the TPD Benefit no longer is offered to the life insured.

Maximum Cover

The maximum sum insured that is available for this product

AIDS Criteria

The way in which AIDS is being covered by the product.

Built in Life Cover

Some trauma policies will automatically include Term Life cover as a benefit at no extra cost. This is applicable to standalone trauma policies, where trauma is the primary cover.

Exclusions

The range of exclusions where a benefit will not be paid will decrease the score of a product.

Built-In Buy Back

If buy back of life cover is automatically included in the product.

Buy Back Option

Where life cover is included in the policy, this option allows the life insured to re-purchase the life cover benefit over a period of time following a trauma claim.

TPD

Some products will allow the inclusion of a TPD rider benefit on a trauma policy, regardless of whether term life is included as a benefit on the policy.

Minor Illnesses

There seems to be universal agreement within the market that five Illnesses are considered to be "major" (Cancer, Heart Disorders, Coronary Artery Surgery, Stroke, Kidney Failure) whilst the remaining Illnesses (which can be quite exhaustive) are "minor". The number and extent of coverage for minor illnesses is scored here.

Heart Disorders

The extent of coverage of heart problems including heart attack, heart disorders and coronary artery surgery.

Stroke

The definition and extent of coverage of stroke.

Cancer

The definition and extent of coverage of cancer.

Kidney Failure

The definition and extent of coverage of kidney failure.

Benefit Periods

The benefit period is the maximum period for which benefits will be paid for any single period of disability. Benefit periods can sometimes also be split depending on whether the disability was due to accident or to illness.

Smoker Criteria

Some insurance companies vary the definition of what makes a client a smoker for underwriting purposes. For example, that you have not smoked in the previous 12 months.

Exclusions

The amount of restrictions applicable to the policy for when benefits are not payable. Some examples include: war, normal and uncomplicated pregnancy and childbirth, self inflicted injuries, complications during pregnancy, military service.

Benefit Offsets

The ways in which the benefit may be reduced when other amounts are being received for the partial or total disablement.

Guaranteed Benefits

“Agreed value” products guarantee that the insured monthly benefit will be paid even if earned income at the time of claim is not at the level it was on policy commencement.

Worldwide Cover

Under this benefit, the policy holder is covered for overseas travel and overseas residency. Some restrictions might be applied under this benefit.

Benefit Levels

Scoring is based on the formula used to calculate the maximum disability income benefit, or sum insured. Most companies use different formulae, usually allowing for 75% of current income up to a certain amount (around \$250,000).

Rehabilitation Benefits

This includes any benefits payable for rehabilitation after a disability that will result in assisting the life insured to return to work.

Rehabilitation Expense Benefit

This benefit provides for reimbursement of expenses incurred for undertaking an approved rehabilitation course, or for equipment modifications to housing as a result of disablement.

Crisis Cover

This benefit pays a guaranteed minimum amount for specified crisis or trauma events. The minimum may be related to a period that includes the waiting period.

Bed Confinement Benefit

This benefit allows for daily payment for each day the life insured is confined to bed during the waiting period. Payment might be limited to a percentage of the maximum sum insured, or be at the full sum insured daily benefit rate.

Waiver of Premium

Premiums are waived if they fall due when benefits are being paid due to disability. Some products may only have an allowance for premiums to be paid if the insured has been disabled for a certain period of time. In addition, some insurance companies will pay the premiums for all risk insurance products held with that company, and not just the disability policy premium.

No Claim Discount / Bonuses

Some insurance companies offer a no claim bonus either in the form of a premium discount, or an increase in the monthly benefit sum insured.

Also common is a loyalty discount, where a premium discount is offered based on the number of years the policy has been in force.

Indexation of Monthly Benefit

The ability to increase the monthly benefit in future years and if medical evidence is required.

Death Benefit

A death benefit may be offered if the life insured should die during the benefit period. Some products even offer this benefit regardless of whether the insured is currently claiming disability benefits at the time of death.

Dismemberment / Fractures

This benefit provides cover for certain specified injuries. A waiting period may apply in which the policy must have been in force for a set number of months before any benefit is payable.

Transplant / Cosmetic Surgery

This benefit provides cover for elective surgery for sickness resulting from the donation of organs, as well as for elective cosmetic surgery. A waiting period may apply in which the policy must have been in force for a set number of months before any benefit is payable.

Transportation Benefit

This benefit contributes towards the cost of emergency transportation to hospital for a condition that causes total disablement.

Relocation Benefit

This benefit in certain circumstances will pay the cost of travel related expenses to enable the insured to return home if disabled away from home.

Spouse Accommodation Benefit

This benefit pays the cost of the spouse's accommodation for a defined period when the insured is disabled a specified distance from home.

Cover Whilst Unemployed

The payment of benefits when the life insured is unemployed at the time of disability may vary between disability insurance products. The definition of disability may vary depending on whether the insured is unemployed.

Returning to Work in the Waiting Period

This benefit allows the insured to return to work for a maximum number of days during the waiting period without the waiting period re-commencing. The number of days that the insured was working for during the waiting period may be added to the end of the waiting period.

Recurrent Disability

This benefit removes the waiting period requirement where the insured suffers a recurrence of total disability within a specified period following the previous period of total disability from the same illness.

Increasing Claim Benefit

This benefit increases the sum insured whilst a claim is being paid to offset the effects of inflation. Benefits can be increased by a percentage, usually at the CPI, but can be a fixed percentage increase.

Guaranteed Insurability

This benefit allows the monthly sum insured to be increased at specified times in the future without further health evidence.

Total Disability Definition – White Collar

For sedentary tasked employees, the definition of being totally unable, due to sickness or accident, to perform at least one important duty of his or her normal occupation and not following any other occupation for remuneration or profit.

Total Disability Definition – Blue Collar

For manual tasked employees, the definition of being totally unable, due to sickness or accident, to follow any occupation for which he or she is reasonably fitted according to his or her education, training or experience.

Partial Disability Definition – White Collar

The definition of the formula used to calculate the partial disability benefit. This formula usually applies a reduction in the monthly benefit payable in proportion to the percentage of pre disability income earned. An additional waiting period after the commencement of disability may be applied.

Partial Disability Definition – Blue Collar

The definition of the formula used to calculate the partial disability benefit. This formula usually applies a reduction in the monthly benefit payable in proportion to the percentage of pre disability income earned. An additional waiting period after the commencement of disability may be applied.

Exclusions / Restrictions

The amount of restrictions applicable to the policy when benefits are not payable.

Business Expenses Covered

The extent of business expenses that can be covered.

Business Expenses Not Covered

The extent of business expenses specifically excluded.

Benefit Extension

The ability to extend the benefits beyond the normal benefit period if all the cover amount has not been received.

Optional Benefits

Other benefits that are not covered in other scoring criteria are scored on under this heading. These optional benefits are not built into the standard product, and may be available at a small additional cost.

Information regarding Personal Protection covers

LIFE INSURANCE

Life Insurance is a simple and straightforward contract between the Life Insurance Company and the policy owner. The Life Insurance Company will pay the Sum Insured to the owner of the policy if the Life Insured dies. (If the Life Insured and the owner are the same person, the money will be paid to the deceased estate).

TOTAL AND PERMANENT DISABILITY (TPD)

This is a contract that can be added to a Life Insurance Contract. The Insurance Company will pay the Sum Insured if the Life Insured becomes Totally and Permanently Disabled. The usual definition of total and permanent disability is as follow:

For paid employee:

- *The life to be insured has disability caused by injury or sickness*
- *As a result, the life insured is completely unable to work at his/her usual occupation or at any other occupation which the insured is reasonably suited to by a way of education, experience or training and will never be able to do so again, and*
- *These circumstances have existed continuously for at least 6 months.*

CRITICAL ILLNESS

This is a cover that will pay if the insured will suffer from any major diseases as listed in the policy. The payment will be in a lump sum and will be based on the sum insured. The payment usually is tax-free and the money can be used for any purpose.

The following is a sample of the diseases that are covered, however, it is important to note that there may be some variances between the different insurance companies and the actual list will be determined by the policy document of the different companies.

- | | |
|---|-----------------------------------|
| 1) Heart Attack | 11) Aortic Surgery |
| 2) Blindness | 12) Loss of Limbs |
| 3) Stroke | 13) Heart Valve Surgery |
| 4) Loss of Speech | 14) Major Head Trauma |
| 5) Coronary Artery Bypass Surgery | 15) Multiple Sclerosis |
| 6) Occupational HIV Infection (AIDS) | 16) Parkinson's Disease |
| 7) Cancer (including Breast Cancer) | 17) Paralysis |
| 8) Dementia (including Alzheimer's Disease) | 18) Aplastic Anaemia |
| 9) Major Organ Transplant | 19) Severe Burns |
| 10) Chronic Kidney Failure | 20) Loss of Independent Existence |

INCOME PROTECTION

This is a contract that protects the Owner of the Policy against the inability of the Life Insured to produce income as a result of sickness or injury. The Sum Insured can be up to 75% of the insured's income. The insurance payout will be paid on a monthly benefit basis during the disability period, after the waiting period and up to the end of the benefit period.

The waiting period is the period from the day the insured becomes totally disabled to the day that the insurance payout starts. The minimum waiting period is fourteen days and the policy owner can choose to extend this up to two years.

The benefit period is the period that the policy will pay the monthly benefit (the Life Insured must be totally disabled during that period). The minimum benefit period is two years and the owner of the policy can extend the benefit period up to a Lifetime with some Insurance Companies.

The above description is the core benefits of Income Protection there are additional ancillary benefits that can be add to the contract and the following is some more information.

The following is a sample of the ancillary benefits that are covered, however, it is important to note that there may be some variances between the different insurance companies and the actual list will be determined by the policy document of the different companies.

Enhanced Death Benefit

Pay a lump sum amount of six times your monthly benefit, subject to a maximum of \$60,000, should you die whilst on claim.

Nursing Care

If you are confined to bed during the waiting period – due to illness or injury – and a medical practitioner certifies that you need continuous care (from a registered nurse for more than 72 hours) you will be paid your monthly benefit for the period for which that continuous nursing care is required.

Specific Injury Benefit

If you suffer a specific injury as listed in the brochure (even if you are not totally disabled) you will be paid the monthly benefit, in arrears, for the specified payment period. Will only pay one monthly benefit at a time. Should you suffer more than one specific injury you will be paid for the longer payment period. If you remain totally disabled at the end of the specific injury payment period, the terms for total disability will then apply.

Trauma Recovery Benefit

If you suffer from a trauma condition as listed, the monthly benefit will be paid, in arrears, for the specified payment period.

Immediate Family Member Benefit

Should you be confined to bed while you are totally disabled, and a medical practitioner certifies that you require car (and a member of your immediate family ceases employment to care for you) you will be paid up to an additional 50% of your monthly benefit. (Subject to a maximum payment of \$3,000 per month for a maximum of three months) This benefit is reduced by any amount paid under the "Special Care Benefit"

Special Care Benefit

Whilst you are totally disabled, you will be paid up to your monthly benefit, or \$2,000 per month, whichever is the lesser, should, as a result of your illness or injury, you be confined to bed and require the care of a registered nurse or housekeeper, as certified by a registered medical practitioner. This is paid in addition to your monthly benefit and is reduced by any payments made under the Immediate Family Member Benefit.



Accommodation Benefit

If you become totally disabled and a medical practitioner certifies that you must remain confined to bed and:
You are more than 100km from your home
An immediate family member is required to travel more than 100km from their home to be with you
Then accommodation costs will be paid for your immediate family member up to \$200 per day up to a maximum of 30 days.

Rehabilitation Incentive Benefit

Will be paid the rehabilitation incentive benefit if
You participate in a rehabilitation program that is approved and make a successful return to work in either your own occupation or another occupation
You have worked continuously for six months and you have not been entitled to benefits under this policy during that period
This policy is in force at the time you become entitled to this benefit
The amount to be paid is three times the monthly benefit at the time you become entitled to this benefit. This benefit will be paid once only during the life of the policy

Relocation Benefit

Will pay the relocation benefit once during a claim if you become totally disabled whilst outside of Australia, remain so for at least 30 days and return to Australia.
The cost of a single standard economy airfare by the most direct route to the airport in Australia nearest to where you reside
Expenses actually incurred by you in changing previously made air travel arrangements
Three times the monthly benefit

No Claim Benefit

If for three consecutive years during the period of the policy, you have not become eligible to make a claim and your policy has remained in force, you will be paid a once only benefit, in addition to the monthly benefit when you go on claim.

Accident Benefit

If you are totally disabled due to an injury, for 14 consecutive days, you will be paid the monthly benefit from day one of the waiting period. This benefit is only available if your waiting period is 14 or 30 days.

BUSINESS OVERHEADS

Business overheads pay you an amount to meet your business expenses while you are unable to work due to sickness or injury. The cover operates similar to Income Protection however the benefits period is for 12 months and the waiting period can be 14 days or 30 days. The benefits are paid on expenses that have been paid.

INCOME AND TAXATION Personal Protection Policies

The following tax information is based on the tax laws and rulings current on January, 2004, the continuance of these laws and our interpretation of them. It is a general statement only. Your individual circumstances may be quite different.

You should consult your taxation adviser in regard to your personal details.

INCOME PROTECTION

- All Income Protection Policy premiums are fully tax deductible whether you are employed or self-employed.
- Any monthly benefit amounts received are taxed as income and should be declared in your annual tax return and where applicable, inserted in a Business or Instalment Activity Statement.
- *Insurance Company* do not deduct tax from monthly amounts prior to payment.

CRITICAL ILLNESS

- Recovery Insurance Premiums are not normally tax deductible.
- Payment of the sum insured under this policy is normally free of personal income tax.
- If the policy is taken out by a business for a revenue purpose (for example replacing business income if a key person dies), the premiums will be tax deductible and any benefits received will be assessed as income.
- If the policy is taken out by a business for a capital purpose (for example to buy out a partner's share in the business), then there is no tax deduction and no tax is payable on benefits provided the policy is taken out on your own or your spouse's life (for example a family business or a partnership).

Capital Gains Tax (CGT) may apply in circumstances where the benefits are paid other than to the insured person, their spouse, children or other dependants.

TERM LIFE INSURANCE NON SUPERANNUATION

- Term Life insurance premiums are not normally tax deductible.
- Payment of the sum insured is normally free of personal income tax, unless the insurance was taken out:
 - by a business for a revenue purpose, or
 - under a superannuation fund (in certain circumstances).
- If the policy is taken out by a business for a capital purpose (for example to buy out a partner's share in the business) then there is no tax deduction and no tax is payable on benefits provided the policy is taken out on your own or your spouse's life (for example a family business or partnership).
- Capital Gains Tax (CGT) may apply in circumstances where the benefits are paid other than to the insured person, their spouse, children or other dependants.

TERM LIFE INSURANCE THROUGH SUPERANNUATION

- Where the policy is taken out through a superannuation fund, the benefits are paid to the Trustee. No taxes are due at this time.
- When the Trustee distributes funds in accordance with the terms of the Trust Deed, tax may be payable.
 - Contributions to superannuation funds may be entitled to tax concessions on the contributions made.

TOTAL PERMANENT DISABILITY INSURANCE THROUGH SUPERANNUATION

When the Trustee approves the release of a member's benefit due to permanent incapacity (which may include the proceeds of Total and Permanent Disablement insurance cover) the total benefit is paid and taxed as an ETP. A portion of the benefit called the post-June 1994 invalidity component is calculated based on the period between the date of disablement and your normal retirement date and is tax free. Please refer to the table below to see how ETP components are taxed.

BUSINESS OVERHEADS

- All Business Expenses premiums are tax deductible as a business expense.
- Any monthly amounts received are taxed as income and should be declared in your annual tax return and where applicable, inserted in a Business or Instalment Activity Statement

Tax is not deducted from monthly amounts prior to payment.

Eligible Termination Payment

A summary of tax on lump sum withdrawals

| ETP Component | Age of person at the date payment is made | Assessable amount of ETP component | Maximum rate of income tax (including Medicare levy) |
|---------------------------|---|--|--|
| Pre-July 1983 | All ages | 5% | Taxed at individual's marginal tax rate (plus Medicare levy) |
| Post-June 1983 – taxed | Under 55 55 and over | Whole First \$123,808* Balance above \$123,808 | 21.5% Nil 16.5% |
| Post-June 1983 - untaxed | Under 55 55 and over | Whole First \$123,808* Balance over \$123,808 | 31.5% 16.5% 31.5% |
| Concessional | All ages | 5% | Taxed at individual's marginal tax rate (plus Medicare levy) |
| CGT exempt | All ages | Nil | Nil |
| Undeducted contributions | All ages | Nil | Nil |
| Post-June 1994 invalidity | All ages | Nil | Nil |
| Excessive | All ages | Whole | 48.5% ** |

The rates above include the Medicare levy. The Medicare levy surcharge of 1% may also apply.

* Low rate threshold for 2004/2005 is \$123,808 (indexed annually). This is a lifetime concession and applies to all taxed and untaxed post-June 1983 components.

** A rate of 39.5% may apply to the post-June 1983 taxed element of any excessive component.

INCOME AND TAXATION Superannuation & Pension

Funds Invested in a Tax Free Environment

Superannuation funds pay tax at 15% on assessable income, as do other roll-over options, such as Approved Deposit Funds and Deferred Annuities. However, once a superannuation fund commences to pay a pension, it does not pay any tax on income and growth on the amount funding the pension. Thus, returns on pension assets will not be reduced by tax payments, making investment in a pension tax effective compared with other investment options.

It is important to note that the recipient of the pension may pay tax on the amount received.

Tax Free Portion

A pension payment may include a return of capital component. Section 27H(2) of the Income Tax Assessment Act provides a formula for determining this amount. The capital component is returned in the form of a tax free amount of each pension payment. The tax free amount may also be referred to as a deductible amount.

$$\text{Tax Free Amount} = \frac{A \times (B - C)}{U}$$

A= Relevant share of annuity or pension. In most cases where one person receives the entire annuity or pension, this component will be 1.

B=Undeducted purchase price (UPP) of the pension.

For pensions that commenced prior to 1 July 1994, UPP is the sum of:

- Any undeducted contributions paid to the fund paying the pension; and
- The amount of an ETP, less its post-June 83 component, rolled-over to the fund paying the pension.

For pensions which commenced after 1 July 1994, other than by the commutation of a pension which commenced prior to 1 July 1994, UPP will consist of:

- Undeducted contributions; and
- Post-June 1994 Invalidation Component; and
- CGT Exempt component

For pensions which commenced after 1 July 1994 as a consequence of the commutation of a pension which commenced prior to 1 July 1994, the pre 1 July 1994 rules effectively continue to apply. Certain pre-requisites, however, must be satisfied.

C=Residual capital value of the pension or annuity, if any, being the capital value payable on the termination of the pension or annuity.

D=Relevant number, being:

- For a single life pension, the life expectancy of the pensioner; or
- For a reversionary pension, the longer life expectancy of the pensioner and the spouse; or
- Where applicable, the fixed number of years a term pension or annuity is payable.