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Radical changes are looming in superannuation, so Smart Money Editor **ANTHONY KEANE** and business reporter **RUSSELL EMMERSON** sat down with six local super experts to talk tactics.

THE ADVERTISER: Firstly, who are the biggest winners of the proposed new superannuation changes?

THEO MARINIS: Baby boomers, without a doubt – anybody over 50 or about to turn 50 in the next couple of years. They've got the opportunity to pump money into super and at 55 they can access their super, even if they haven't retired. So it's not a long-term investment any more.

ANDREW HAMILTON: One of the other winners I think is the under 35s. There has been a restriction of the amount they can actually put into superannuation and that limit's been taken away. Some people who own their own business or are earning reasonable money can now actually put a bit more into super if they want to. Obviously it's for a lot longer term. If they've had a couple of good years with their business, they now have the ability of putting in a lot more money than they could prior to the Budget changes.

MARK BORG: The self-employed too, going to a 100 per cent tax deduction from 75 per cent for contributions. It really makes it seem so much more attractive. You've got a level field now with the co-contribution now open for the self-employed too.

FRANCES MAGILL: And self-managed funds have got, if they sell a business, the opportunity to put a million dollars in.

HELEN DUNDON: I think, too, a lot of our clients – the 60 to 65 year olds – are winners in that often they have their wealth outside of super. We have the opportunity over the next few years to move their wealth into super, using the various tax strategies of capital gains tax relief by claiming a contribution as you put the money into superannuation and then, of course, their income is tax free, going forward.

FRANCES MAGILL: I still think the contribution limits are a bit low at $50,000 per year. If somebody wanted to sell their house and put the money in super I'm assuming they would have more than $50,000, or $150,000 for the combined three years, from the sale of a house.

STEPHEN HEATH:: The winners from where I sit are almost all consumers, anybody who invests in super. We actually have a regime which at a more macro level is simpler. And the ability to get in front of clients and actually

OUR PANEL

From left to right

- **Mark Borg:** AMP financial planner.
- **Helen Dundon:** Prescott Securities financial adviser.
- **Theo Marinis:** Marinis Financial Group financial strategist.
- **Andrew Hamilton:** Cavendish Superannuation joint managing director.
- **Frances Magill:** Statewide Superannuation chief executive.
- **Stephen Heath:** Thomson Playford partner.

not have their eyes glaze over is a big plus for me.

THE ADVERTISER: Are there any losers from these changes?

THEO MARINIS: Anybody who wants to throw a couple of million dollars into super. We had one client pre-Budget who was going to sell his business for about $10 million. It was pretty simple: a five million dollar undeducted contribution for him, five million for his spouse. After the Budget I had to call him and say you can't do it. Perhaps the top end of town loses out in one respect, but the removal of RBLs (Reasonable Benefit Limits) probably helps the top end of town a fair bit.

THE ADVERTISER: What are the best ways to take advantage of these new rules?

STEPHEN HEATH: It depends to a large degree on the availability of funds. A high proportion of the population is in that 45-to-55 age bracket and those people are earning more money than they've ever earned before, they've paid off the school fees and they actually have money to invest. The only constraints I think for the average mums and dads is going to be the availability of funds, but there is more money kicking around in the system and the stock markets have been on the run.

MARK BORG: That's the big difference now. Before you were limited about how much you could get out, whereas now the limits are on how much you can get in. I think taking advantage of it is really doing a budget to make sure you can maximise what you're putting in. The days of accumulating assets outside of super and then transferring them just before retirement are long gone. And that's what I think everyone needs to get their head around – budget on how much you can put in every year.

THEO MARINIS: I've always said that with super, you get in as soon as you can, as much as you can for as long as you can. As soon as you start work go for the co-contribution, the salary sacrifice scenario later, and even now you can contribute until you are 75 if you're still working.

THE ADVERTISER: The new laws were introduced in Parliament late last year but nothing has been debated or passed yet. How are they progressing?

FRANCES MAGILL: You had up until February 1 to make a submission to the Government and my understanding is that the Labor Party will support the changes that the Federal Government is proposing. It will go through but it will just depend on what changes might come through after the submissions.

THE ADVERTISER: Have you got any feel for what submissions have been about?

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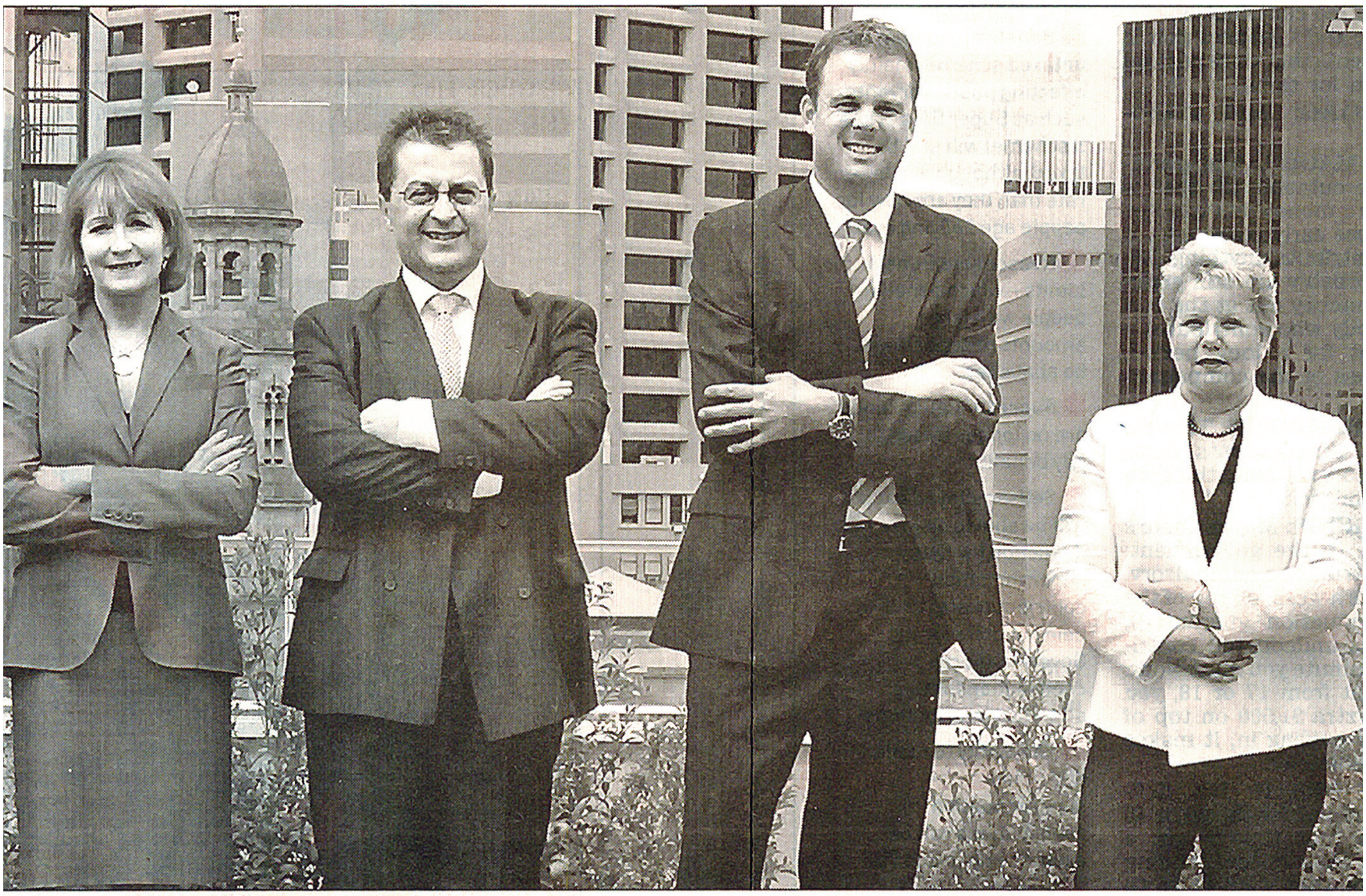

FRANCES MAGILL: We're involved in some submissions through our various associations and I think it's the personal contribution limit of $50,000 which is an issue. We feel that the average worker who sells a reasonably large house and downsizes is limited to putting in $50,000 in one year or $150,000 over three years. There's some disquiet about that and also some of the insurance issues.

HELEN DUNDON: It does seem like you do know you're dying tomorrow, you can take it all out tax free.

THE ADVERTISER: Are there any other ways that people might be disadvantaged with their current investments?

ANDREW HAMILTON:: There is a lot of press about putting large sums of money into superannuation now – selling property and selling other assets to get money in. But there can be ramifications. Have you got a capital super for that very reason. It has changed in the last 20 years, but I can't think of too many things that are still around that are actually worse. It's actually changed for the better.

MARK BORG: That's right. People are concerned with the changes but if you look philosophically at what the Government's been about, super has simply evolved from a tax loophole to a retirement savings plan. So I think these concerns are really unfounded.

> **"Evolved from a tax loophole to a retirement savings plan**

an anomaly in the legislation where if you take it out before you die, there's no tax but if you die and it goes to your beneficiaries who aren't financial dependants, it is taxed.

STEPHEN HEATH: If you can't predict your own death there's a 16.5 per cent penalty.

HELEN DUNDON: It's a death duty. Are there submissions on that?

FRANCES MAGILL: Yes – to remove that 16.5 per cent capital gains tax equivalent.

HELEN DUNDON: The anomaly is if gains tax liability? Have you got stamp duty to pay? The costs of selling and the costs of buying need to be taken into account. So it's great to get the money in, but make sure the long-term benefit outweighs the cost.

THE ADVERTISER: That's good. What about the potential that the rules may change again some time in the future?

THEO MARINIS: That's one of my bugbears, because for the nearly 20 years that I've been in super, people have been reluctant to put money in

THEO MARINIS: There's a trillion dollars in there now, so it's not just chump change. It's serious money and it's bilateral. Labor introduced super. The Coalition brought in some silly rules like surcharge, but they have now realised that this is important.

ANDREW HAMILTON: People now understand that because you're having 9 per cent paid in by your employer, it's actually a reasonable amount of money. It used to be you didn't have super at all or 3 per cent award super – it was peanuts and no one really took

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much notice. Now people are really interested in what the returns are and where they're invested.

STEPHEN HEATH: And a good insurance mechanism as well. Income replacement, TPD, life insurance.

ANDREW HAMILTON: I think people have become far more educated with regards to what superannuation is. A lot of the guys that we have working for us do not expect an age pension. As far as they're concerned, it's not going to be there so they've got to look after themselves. So it's a bit of a change in mind-set from the baby boomers through to the younger generations.

MARK BORG: People who are members of super funds vote. Everyone can say "we're fearful and it's all going to go pear-shaped" but there are too many members for that to occur.

THEO MARINIS: The first of the baby boomers turned 60 last year, about a quarter of a million people and depending on where you draw the line, for the next 15 or 20 years, a quarter of million people will be turning 60 and that's a lot of voters. If a government decides to change their rules draconianly, they're going to have one eye on the economic side and one eye on the politics side. If they say all your pensions are now taxed from today, they're not going to last long. There's a lot of people and now they've got clout. That's why we've had all these changes – because of the baby boomers. They're forcing a 21st century view of what retirement's all about.

STEPHEN HEATH: There's a bit of a mindset out there where the 35 and 40 year olds say: "Does it really relate to me? The rules have changed and I'm not 60 yet. It's alright for somebody who is 55, but it's almost like the numbers don't stack up and it looks too good, so I don't expect it to be there when I get to 60". I've heard a lot of that sort of comment.

HELEN DUNDON: I would have to agree with that view. The rules have changed in regards to superannuation in the past 15 to 20 years, but there's always been grandfathering. If they change the rules on tax-free pensions and the like, the people who are within that regime I'm sure will stay within it. For the 30 to 35 year olds, I'm not sure what it will be like when they are 60.

THEO MARINIS: It sneaks up on you though. I remember being a 25 year old and advising people that were 55 and thinking "crikey it's a long way away". I'm 45 this year. It's amazing how quick that's gone.

HELEN DUNDON: It doesn't mean you don't use it, it just means you don't throw everything into super. A lot of the 30 and 35 year olds will in fact be retired at 50 to 55.

FRANCES MAGILL: They might be retiring at 100.

HELEN DUNDON: They may be, but you need flexibility as an adviser. Also, one of the traps I don't think we've mentioned is in fact putting too much money into super. For example you can put in $150,000 of undeducted contributions over a three year period but if you do exceed that limit the tax is horrendous, it's 46.5 per cent. And you can't go in and say "sorry I put too much in, can I have it back". You'll just be taxed, so that is something people need to be quite mindful of.

FRANCES MAGILL: And if you're in a superannuation fund and you haven't advised your tax file number, you'll be hit with that anyway. So from 1 July people are going to be paying top tax because they haven't advised their tax file number. And for Statewide that's probably upwards of about 35 to 40 per cent of the fund. For 160,000 members, that's a lot.

THE ADVERTISER: Do you think super funds can be successful in getting those tax file numbers?

FRANCES MAGILL: We're putting out with our half-yearly statements, which should go in the next couple of weeks, a flier to say you can tell your employer to give us the information. They can ring up and give it to us but we've got to go through a long process with all this privacy stuff. They can write in to us with the number and we've got a form that they can fill out if they've got any other information that they haven't given us. When you talk about the other industry funds, we're average, so significantly if you've got 20 million members' superannuation accounts and 30 to 40 per cent don't have a tax file number, it's a lot of people.

ANDREW HAMILTON: From an administrative point of view, whether you're running self-managed funds or whether you are in the industry or big corporate funds, there's a huge administrative burden that has to be fixed. A lot of firms aren't going to know what

they are until you start implementing things. The first couple of years will be interesting just from an admin point of view. I think people need to be far more conscious of how much money is going into super, what the general rules are so they can keep track themselves and make sure that what's supposed to be happening is happening, and they are not paying additional tax.

MARK BORG: That is the advantage of working with an adviser because it's personalised. And what's not there the adviser will chase personally.

FRANCES MAGILL: That's right. And one of the first things that people should do with these changes is to go and see an adviser, or ring your superannuation fund to find out how they can maximise what these changes are going to be. So they need to go to an adviser to get the information.

HELEN DUNDON: In the broader community, this has brought super to the attention of everybody. They're saying "if this is so good, what does it mean to me?" So people are opening their statements now and fortuitously the last two or three years have been particularly kind from the market point of view.

MARK BORG: I think they'll know a lot more when the market goes down.

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Big performance expected

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HELEN DUNDON: They will, but they're seeing what they put in but then there's earnings adding to it, so its giving them a greater sense of it being money of their own that they're going to get at some point in the future.

STEPHEN HEATH: People having more sovereignty over it is a really big deal in my view because I go right back to the days when people didn't know they were members of super funds and they had to stay there until they were 65 to get anything. These days you can spread it for matrimonial property purposes, you can run a self-managed fund and you can control the investments. If you're not self-managed you can still make choices about the investments. It's a totally different ball game.

THEO MARINIS: That's all the changes over the last 20 years. They're fantastic. The bad ones are gone, surcharge has gone. The RBL is about to go. The change has been good.

FRANCES MAGILL: And free access to the Complaints Tribunal, which you couldn't do before.

That's one of the bigger changes that came in.

STEPHEN HEATH: So it's affordable justice.

FRANCES MAGILL: Yes. The average person had to go the Federal Court to even get it heard. In those days you couldn't represent yourself, you couldn't get access to the trust deed and find out what you're even entitled to.

THE ADVERTISER: Do you think we can expect more changes in the upcoming budget in May?

THEO MARINIS: You wouldn't think so.

STEPHEN HEATH: I'm glad you didn't ask me this question last year. I would have got it 100 per cent wrong.

THEO MARINIS: I think there could be more tinkering and fine tuning. I mean, what else can they do? It doesn't get any better than that.

HELEN DUNDON: It wasn't just the last Budget, it was the two before that as well. So we've had three Budgets, and the last one was of incredible significance.

MARK BORG: These are significant changes, and now it's just tinkering at the edges.

THE ADVERTISER: What would be some good practical tips for people who are really close to retirement?

FRANCES MAGILL: Go and see a financial adviser.

MARK BORG: If you're close to 60, the big thing to remember is tax free income. How do I try and get as much tax free income as possible? Because it's not so often you can say tax free income.

HELEN DUNDON: You have to have the money, that's the issue. If you earn $100,000 you can get $85,000 into your super. If you take it as a wage, you're only going to get $53,500 in your hand. So if it's only a short time frame, you just have got to be putting it into your super.

THEO MARINIS: That's where transition to retirement comes into play. That gives you an existing line of super to generate tax effective cash flow, so then you can boost your super over the last couple of years. That wasn't in the last budget, but I think that was the first wave of all this simplification and greater flexibility in super, to encourage people.

FRANCES MAGILL: And make sure your super fund has your tax file number, regardless of age.

THE ADVERTISER: What about those already retired and receiving an allocated pension?

FRANCES MAGILL: I think it's going to make it easier for them to just go to a teller machine and get money out of an account. So I think you'll see superannuation funds and credit unions or banks having some association so that you can draw out the money. So you're going to have to take your minimum, as you do now, but the maximum is unlimited. You can draw out the lot if you want to.

THE ADVERTISER: Any other tips for existing retirees?

THEO MARINIS: Re-visit your Centrelink position between now and 20 September. You may qualify automatically in September anyway, but you can all reorganise your affairs and lock into a term allocated pension before 20 September to either qualify now or certainly set yourself up better post 20 September. If you're already retired, revisit your Centrelink position as well.

THE ADVERTISER: Finally, what are some practical tips for people who are still 20 or 30 years away from retirement?

ANDREW HAMILTON: Co-contribution. Look into the co-contribution. So many people don't know or understand it.

THEO MARINIS: It's as good as salary sacrifice; in fact it's better for the low income levels. You get $1500 back for $1000 investment. You've got to put in $10,000 on a salary sacrifice basis for most people to get the same tax effect. It's a great bang for your buck.

MARK BORG: Apart from that, it's about budgeting for your retirement. Allocating funds now specifically for your retirement. You're limited as to how much you can get in and so leaving it to the end is too late. Applying retirement money as you go through is the key.

THEO MARINIS: $20 a week.

FRANCES MAGILL: I'm thinking that a lot of parents are actually putting money in. We had a huge jump in the co-contribution for young people and I suspect that it was their parents that were putting the money in for them.

MARK BORG: And grandparents.

FRANCES MAGILL: And grandparents. The outcome for that is that the more money you can get in during those early years, even if you don't contribute anything else later, you probably are still going to get more money out at the end than somebody who contributes a little amount for a long period, purely because of the compounding factor.

ANDREW HAMILTON: That's a good point. Grandparents quite often want to give something to their grandchildren.

THEO MARINIS: Maybe there's a suggestion to the government: make co-contribution compulsory. Twenty bucks a week, on top of the SG (superannuation guarantee), comes out as undeducted contributions the minute you start work. If you do that from 17 or 18, you pick up an extra $1,500 on top of $1,000 you're putting in, it makes a hell of a difference.

STEPHEN HEATH: It's definitely a harder sell for the 30 or 40 year olds in that they've got a mortgage on their house, sending kids to school, they want to go to the Gold Coast for holidays. They don't have the available cash flow that older people do. Maybe they need a bit of a push from their employer with more flexibility in remuneration and salary sacrifice and all that sort of stuff.

THEO MARINIS: I recommended to my cousin, who started work at 18, to get her employer to take $20 a week out, because she won't even notice it. At that age if you get it you spend it, if you don't, you don't spend it. You pick up an extra $1,500 a year from the co-contribution. If she never works again after 25, she's got a fantastic little nest egg to grow. The power of compound interest is incredible 30 years down the track. And $20 a week is a couple of coffees.

ANDREW HAMILTON: The whole compound interest thing is something that you should probably be teaching at school. In some of the European countries, it's ingrained, that's the way they think. It's not the way generally people think here. It's not ingrained that if you put that $20 away, the effect that it has long term.

KEY CHANGES

From July 1 this year:

- Superannuation benefits paid from a taxed fund either as a lump sum or as an income stream such as a pension will be tax free for people aged 60 and over.
- Benefits paid from an untaxed scheme (mainly affecting public servants, such as Super SA's Triple S scheme) will still be taxed, although at a lower rate than they are now for people aged 60 and over.
- Reasonable Benefit Limits – which penalise people with large amounts of super – will be abolished.
- Superannuation funds are no longer forced to pay benefits.
- Self-employed people will be able to claim a full deduction for their superannuation contributions as well as being eligible for the Government co-contribution for their after-tax contributions.
- The ability to make deductible superannuation contributions will be extended up to age 75.
- It will be easier for people to find and transfer their superannuation between funds.
- To increase the incentives to save for retirement, from September 20 the pension assets test taper rate will be halved to $1.50 per fortnight for every $1000 of assets above the assets test free area.
- The preservation age for super will not change. The preservation age is already legislated to increase from 55 to 60 between the years 2015 and 2025. People will still be able to access super before 60.

Source: Federal Government

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