Super Changes NOT Smart

Generation 'X' to Cop the Retirement Pain

The changes to superannuation policy announced in this year's 2009 Federal Budget are not smart policy, says Adelaide based financial strategist Theo Marinis.

"A smarter way of reducing the budget deficit would have been to cancel the promised tax cuts for high income earners, rather than to reduce the amount Australians can put into superannuation," he said.

"High income earners would not have missed what they did not have. However, now there is a reduced incentive to provide for your own retirement with the Government cutting in half to $50,000 pa (from 1 July 2009) what a person over 50 can put into super on a concessionally taxed basis and reduced to $25,000 pa that what younger people can put away.

"To add insult to injury, the proposed gradual increase of the age pension entitlement to 67 years, for those born since 1 July 1952, coupled with a reduced flexibility to tax effectively provide for your own retirement, means that the Government is condemning younger Baby Boomers and Generation X to a lower standard of living in their dotage than their parents.

"This may be driven by the concept that Gen Xers will inherit wealth from their parents, however this is fundamentally flawed as Baby Boomers will inevitably need to consume most, if not all their assets to maintain their lifestyle over a longer period.

"And despite improved life expectancy, if you look around most work places you will see very few employees over 55, let alone 60 or 65. Making people wait an additional two years to get a state pension after a lifetime of tax-paying is bordering on cruel.

"As a result of the policies announced in the Budget, Australians will have to change the way they think about superannuation. No longer will it be able to be considered a personal asset, rather it will need to be seen as belonging to the family.

"Families will now need both parties to contribute as much super as they can up until the age related maximum, with the situation occurring that part time workers may have to contribute 100% of their earnings for the long term benefit of the family.

"I am also concerned about the reduction by $500 of the co-contribution for people who are earning up to $60,342 and who contribute up to $1,000 extra into super. If these people have the courage and foresight to make extra sacrifices for the long term then they should be both encouraged and rewarded. After all, the bottom line is that they will not have to draw on the public purse in retirement if they have a decent nest egg of their own.

"Australians who have been thinking about their retirement plans, and in my view this should be anybody over 40 years of age, should see their financial adviser as soon as practicable to discuss with them what their best options are.

"In simple terms, if you are aged between 40 and 50, both parties in a relationship should be contributing as much as possible into super up to the new lower $25,000 pa limit each.

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"If you are over 50, you should be trying to get $50,000 into each partner's super (whilst this remains possible, to 30 June 2012), if this is financially possible.

"If you are over 55 you should have a Transition to Retirement (T2R) strategy in place, as this strategy continues to dramatically reduce your tax and allows you to 'super charge' your retirement savings, though the benefits of this have been capped from 1 July 2009 by the reduced contribution thresholds.

Of course, these changes reinforce the need to seek advice from a professional financial adviser to implement the right strategy for you and adapt it as your circumstances or legislation changes such as these required.

The benefits of advice are clearly demonstrated by those who took advice to implement Transition to Retirement (T2R) strategies over the last four years and in so doing have managed to boost their super during that time, whilst those who failed to do so, now have some catching up to do and may be forced to work to age 67 or beyond even if not affected by the government's age pension age budget change!

"Developing a robust retirement strategy has never been more important for Australians, in my view," Theo said.

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Disclaimer

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The information given in this article is of a general nature and has not taken into account the investment objectives, financial situation or particular needs of any particular person. Before making an investment decision on the basis of the advice above, a prospective investor needs to consider, with or without the assistance of a professional adviser whether the advice is appropriate in the light of their particular investment needs, objectives and financial circumstances

LETTER SENT TO CLIENT DATA BASE

28th May 2009

Client Name/s
Address
Address

Dear Client,

FEDERAL BUDGET 2009

You may have seen a lot of commentary throughout the media in relation to the Federal Budget over the last few days, but the bottom line for my clients is how will these changes affect those who have either finished their paid working career or are saving towards a comfortable retirement?

The first thing to note is that the Government has extended the Pension age to 67 from the year 2023 although this should not be of major concern for the majority of our clients.

The second and more significant point is that from 1 July 2009, the amount of money the Government will allow us to put into superannuation on a concessional tax rate each year has been reduced, which is disappointing. For those over 50 it has been cut to $50,000 and for those younger it has been cut to $25,000 which means people should be seeking financial advice sooner rather than later to explore other ways to maximise their retirement benefits.

Controversially, for people earning less than $60,000 who personally contribute up to $1,000 to super, the Budget outlines a reduction in the superannuation co-contribution from $1,500 to $1,000 - but describes this as temporary.

These changes, according to media reports, should save the federal budget $600 million immediately and rising to $800 million by 2012.

What this budget tells me is three important things for our clients:

- Superannuation is too important to Australian society for Government to make any major changes and this is great news.
- As long term investors, we need to change the way we think about super and consider it a family asset, not an individual asset
- Having a robust superannuation strategy in place has never been more important.

Transition to Retirement (T2R) is now even more important as it allows people over 55 to “super-charge” their retirement savings by reducing their effective rate of tax. Given that we all now potentially need to continue working for an extra two years, this is even more vital.

If you had been thinking of making significant deposits into super before 30 June, then please contact me as soon as possible – depending on your individual circumstances this may be a very wise move.

Despite the Budget changes, my fundamental message to you is Super is still ‘sexy’ and getting the right strategy in place at an early age has never been more important.

Please feel free to call me or one of my team if you have any questions or concerns about your own situation.

Yours sincerely

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Financial Strategist
Authorised Representative

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