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You've Got $5 Million in Super. Now What?

Despite the latest bout of government tinkering, super is still a great wealth creation tool. Theo Marinis examines what those with big super balances can do to maximise the benefits.

By Theo Marinis

18 Apr 2023

For those 88,000 Australians with more than $3 million in superannuation, Treasurer Chalmers has shifted the goalposts. This should not give cause to panic.

If you have 'excess' super, you also have the next 2.5 years in which to consider, in consultation with your financial adviser, a range of complementary strategies – and to implement them.

Take, for example, the actual case of a client who, through hard work and diligent saving, has built a retirement nest-egg of $5 million – with the goal of having an income of $250,000 per annum at retirement, and a healthy estate for his six grandchildren.

As a first step, we can work to build his life-partner's super balance up to the current $1.7 million pension phase Transfer Balance Cap (TBC scheduled to increase to $1.9 million, or $3.8 million combined, from 1 July 2023). This will be achieved by transferring from his super, $110,000 annually via a Cash Out and Non-Concessional Contribution (NCC) Recontribution strategy to her super account. Ideally, they will eventually hold, as their combined super balance, the maximum amount of $3.8 million, based on the 1 July 2023 TBC increase.

Next, we will consider their home – should it be sold to buy a bigger, more expensive residence, or would it benefit from significant capital improvement? Remember, the residential home is tax-free, including exemption from Capital Gains Tax provided it is built on less than 5 acres and not used for business purposes. It remains a great inter-generational wealth transfer tool and the capital improvement strategy is one which I am also personally implementing.

Ugly Duckling Insurance Bond

Then there is the ugly duckling of the investment universe, the Insurance Bond, a topic about which I have written in some detail in the past. I believe it could swoop back in as a very attractive – even graceful – medium to long-term investment vehicle for excess superannuation balances.

Insurance Bonds do not attract the 17 per cent Death Benefits Tax on unused Taxable Components of super left to non-tax-dependants; this investment may well present as another acceptable strategy to be considered with any money left over after renovating or upsizing the home.

What has become clear, from the current discourse on the changes to the superannuation tax rate as announced by Jim Chalmers, is that the public hate the constant tinkering with their superannuation system. They fear that the government is coming after their nest-egg, with the potential for the average person to be dissuaded from confidently putting money away for their retirement.

Superannuation Isn't Dead

But superannuation is not dead; the opportunities and benefits within the system remain significant. After the family home, super is still the next best available wealth creation tool, providing a range of discounts to attract long-term savers.

Those people with more than $3 million in superannuation, or those with $5 million and above, need not fear the end of super. A competent financial adviser can help you to access additional strategies to deliver the retirement you anticipate.

And for my clients in the case study, whilst the $3 million super/tax legislation has not yet been released, it is likely that the first $1.9 million each (post the pending 1st July 2023 Transfer Balance Cap indexation [TBC]) will remain at 0 per cent tax on the funds permitted in pension phase (or the TBC) and a 15 per cent tax rate on the excess remaining in accumulation phase, with the proposed, convoluted, higher effective tax rate applicable when the balance exceeds $3 million. This is still a much better deal than paying 47 per cent tax on investments outside of the superannuation environment.

Policy on the Run

Finally, we need to put all of this into context.

There are many who see this new super tax as an exercise in deviousness; it is certainly short-sighted, amateurish and a perfect example of policy on the run. For those of us fortunate enough to be affected by the $1.9 million TBC and the proposed new $3 million threshold, however, these imposts are still a better prospect than the old Reasonable Benefit Limit (RBL) rules which applied pre-2008.

Remember too, that investment earnings on Account Based Pensions (or 'Allocated Pensions' as they were then called) and the income received from them are now 100 per cent tax exempt once aged 60 or above. Prior to 2008, this was not the case.

It would seem, therefore, that all the tinkering could actually have the effect of improving the super system.

That is why, I continue to advise my clients that they need to contribute to super as soon as they can, as much as they can, for as long as they can.

I am of the view that the time to stop contributing to super is when all the interference has ceased; when that happens, it will mean that all of super's excellent benefits have been removed.

By my reckoning, we are nowhere near there yet.

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