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What…? Super's Sexy Again?

Remember getting your super statement back in August 2009 and feeling deflated that 9% of your pay appeared to be compulsorily going down the drain thanks to the superannuation guarantee law?

The really sexy thing is that you were wrong – in fact, by law you were buying up some very cheap assets at the time, due to the Global Financial Crisis (GFC), up to 50% less than you would have to pay for the same shares today.

Those clever people who continued to maximise their salary sacrifice (prior to 30 June 2009, up to the $50,000 pa limit for under 50's and $100,000 pa for those older) into their super during the dark days of the GFC, the news is fantastic. The $100,000 which older workers contributed during the 2008/09 financial year could now be worth as much as $130,000 even after paying the 15% Contribution tax.

This recent trauma in super returns highlights just how important it is to know the rules, develop a strategy and to 'stay in your seat' in tough economic times.

It is important to remember that superannuation represents a highly tax effective structure for investment - it is not <u>the</u> investment (or investments). During the GFC investments were affected but the tax effectiveness of superannuation remained through the crisis.

However, while the super "driver" is its legislated tax haven status, what makes super sexy for me is what it really buys you – dignity in your old age. It is a reward for a lifetime of hard work.

I find the thought of living on the single pension of $17,469.40 per annum ($671.90 per fortnight) distinctly unexciting. However if you have saved an extra $200,000 in super, you can easily increase your fortnightly income from both Centrelink and your own funds (earning a conservative 5% pa on your super) to around $1,000 per fortnight or $26,000 pa – and still have much of your super nest egg intact to leave to your family or draw down on in the future.

What is even better is the Transition to Retirement rules allow working people over 55 to salary sacrifice up to $50,000 a year into their super and yet draw down very tax effectively on their own retirement funds at the same time. Which in effect means they could be reducing their tax rate to 15% and "super charging" their savings.

One of the great innovations of the Howard Government was the co-contribution rules. These rules mean that a person earning under $30,000 pa, who contributes an extra $1,000 to their super, will find that the government will match it (and this contribution could be made on their behalf by a family member with more disposable income!).

This level of contribution means that in this example $4,700 gross would be contributed into this person's super fund that year.

If they are in their first job and 17 years of age, assuming their super fund earns 5% pa, when they attain age 67 and each year have the equivalent of their first years contributions made by them or for them, thanks to compound interest, their account will be worth approximately $2,100,000 (taking into account CPI indexation of 3% and AWOTE of 5%). Now that is Sexy Super if ever I've heard it!

Clearly, as a nation we are extremely well placed with more that $1 Trillion invested in superannuation. This pool of savings is one of the reasons we have fared so well during the worst economic crisis in the post war history. (I estimate that if the US had introduced our super system at the same time we did, then on a per capita basis they would have around $15 Trillion in their super system. They therefore might not now find themselves $14 Trillion in debt today!)

Looking over the horizon, and in light of the comments above, the superannuation world is likely to get even better. The Federal Government has the Henry Review into taxation and the Cooper review into Superannuation underway.

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I think the outcome of these reviews will bring improved laws to encourage Australians to tax effectively put more away for their own retirements and lets face it, the government will still get a slice via the GST it will collect when we eventually spend our money. Thus the government is just delaying its cut and allowing us to grow our retirement savings pool more quickly because less tax has been taken out of our savings along the way.

As always, it is important to get advice from a qualified financial adviser. Ask your friends and family for a recommendation or look up the Financial Planning Association website.

Theo Marinis is an Adelaide based financial strategist.

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For further information please contact:

Theo Marinis B.A., B.Ec., CPA., CFP®
Financial Strategies (SA) Pty Ltd
Trading as Marinis Financial Group
T 08 8130 5130
F 08 8331 9161
M 0412 400 725
E admin@marinisgroup.com.au
A 67 Kensington Road
NORWOOD SA 5067
W marinisgroup.com.au

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