IMPORTANT NOTE
The taxation rates and thresholds contained in this publication apply only for the tax year 01/07/2008 - 30/06/2009.

Rates and thresholds for the current tax year may be obtained by contacting Marinis Financial Group or online by reference to the Australian Taxation Office website: www.ato.gov.au

Sexy Super?

written by Theo Marinis

June 2008

MARINIS
FINANCIAL GROUP

There is something strange going on in Australian society at the moment; something nobody would have predicted just 12 months ago. This change is drawing sane and intelligent people out of their homes on wet, cold Monday evenings to find out about Super rather than staying at home with their loved ones.

believe it or not, *superannuation and retirement planning are suddenly "Sexy!"*

why I wrote this book

The trouble is, "super" is a bit scary for most people, despite being very exciting. That's where I come in – I'd be a very unlikely sex therapist, but when it comes to helping you share in the joy, satisfaction and thrill of having a great financial discussion with your adviser, I'm your man!

With my background as a financial strategist, economist, being a CPA and having worked for Centrelink, the Insurance & Superannuation Commission and at the good old Tax Office, I think I'm uniquely placed to help open up people's eyes to the key strategies for maximising their wealth in retirement.

Sadly, the superannuation industry is a mess of laws, changes and almost in-built confusion. My aim is to clear this up to the point where the average person can have a conversation with their adviser about what will probably become their biggest single asset. (and give them some tips on how to get their adviser thinking harder!)

This book is meant to fill the gap between newspaper articles, which are limited in scope, and text books – which are just mind numbingly awful to read!

I want the average Australian to get the same kind of thrill about their super that I do, and they will get it by reading on, understanding the topic and by working closely with their financial adviser. Super really is sexy!

"by reading on you will be well equipped to find your own $ spot!!"

australia's superannuation
landscape is continuing to evolve

Over the past two decades there have been significant changes, not only in the legislation governing how we are allowed to save and invest for our retirement but also in our thinking towards retirement in general.

The most recent changes in legislation mean we all have more choice than ever in where and how our superannuation funds are invested. The tax environment has become much friendlier, enabling us to deposit more superannuation during our working years and to gain major tax concessions both before and after retirement.

It's all a good news story. Advances in medicine also mean that many of us can look forward to living longer, productive and healthier lives once we do stop full-time work. So having enough money in our retirement years, to see us through into old age, is essential.

As such, most Australians are much more focused on their superannuation these days with a view to building as much wealth as possible so we have sufficient funds available once we do cease work to live a comfortable and rewarding lifestyle.

This booklet has been prepared as a guide to help you better understand the superannuation environment, but most importantly to provide you with a range of general information on how to maximise your superannuation nest egg and then enjoy the benefits of it.

As well as providing useful information on saving for retirement and superannuation accumulation strategies, it also looks at insurance and estate planning to help you manage and structure your wealth assets efficiently.

There are also a number of real-life case studies to explain the application of certain strategies, and many useful fact boxes and website links.

It aims to make you better informed so you can make the right choices, however there is no substitute for professional advice. Every situation is different, so it is highly recommended that you do seek advice about your specific circumstances from an authorised, Financial Planner.

Retiring from work doesn't mean you are retiring from life. With the right advice and strategies, it's possible for all of us to live a financially secure and rewarding life once we do decide to permanently retire.

I urge you to read this publication to find out some of the steps you can take to achieve this.

contents

maximising your wealth

Superannuation is all about preparing well ahead for your retirement needs. Even though retirement may seem a long way away now, it does sneak up on you if you don't plan properly.

As children, most of us are taught about the importance of saving for the future. Often, our parents will open a bank account for us and deposit small sums to get the ball rolling so that, over time, the balance will build up.

When more money is deposited and interest compounds, that small savings account will eventually become sizeable and there may be enough funds to buy yourself your first car.

The same is true with superannuation. These days, as soon as we start work, our employer is required to begin depositing a compulsory superannuation levy, which is currently a minimum 9% of our salary, into our super fund account.

Over time, the balance will grow so that by the time we are able to access our super, there will be enough money to assist us in our retirement.

example

If at 45 you have $250,000 in superannuation and your employer contributes 9% per annum of your $100,000 pa income, you will have a lump sum of $1,155,835 when you retire in 20 years. However, if you salary sacrifice an additional 6%, making your total contribution 15%, your balance will be $1,359,798*.

saving for retirement life

Many people have their health insurance, car payments and mortgage costs deducted automatically from their pay. The same can be done with super. If it's being deducted automatically, you won't even notice it.

Also, if you earn below a certain level of income, current legislation means the Government will deposit up to $1.50 for every $1 you contribute into super – up to a maximum of $1,500 per year.

Taking the above $20 per week example further, if that 19-year-old (contributing this amount from 19 to 65 years of age) also qualified for this full government co contribution of $1,500 pa, as a result of this savings plan and the government's co contribution, this portion of their super would grow to approximately $612,000.*

Later, we'll talk in more detail about some of the options available to you, such as the Government co-contribution, salary sacrificing, contributions splitting and Transition to Retirement (T2R).

As we have already discussed, saving from a young age will give you the discipline to ensure that you have a sizeable nest egg when you do leave the workforce.

Your employer is required by Australian law to contribute superannuation on your behalf. But to really get ahead, it's very beneficial to contribute additional funds yourself.

You do need self discipline, but by just putting a little bit of money aside as a habit, even just $20 per week through an automated salary deduction, this will make a huge difference over the long term.

example

If a 19-year-old contributed $20 per week or $1,040 pa into their super fund each year to age 65, this annual saving would grow to approximately $250,000*.

"super is a long-term strategy, so the longer you're in the game the better off you'll be in retirement"

** Assuming 6 % net earning rate*

tax effective

Superannuation has always been, and remains, the most tax-favoured investment vehicle there is for Australians. Tax deductible contributions are taxed at only 15% provided they are within the new contribution limits that apply from 1 July 2007. Furthermore, as a result of recent changes, once you turn 60 the funds can be withdrawn tax free.

Using salary sacrificing to deposit pre-tax dollars into your super also means a substantial tax saving on your income, plus other investment strategies can help you save tax and qualify for Government entitlements when you retire.

Maximising your superannuation to build wealth for retirement has always been important because the amount of funds you do accumulate in super will inevitably determine how much you have available to live on when you ultimately retire.

The timing has never been better, so if you're not taking full advantage now it's definitely worth getting on board as soon as possible to secure your future lifestyle.

good planning and regular review

As the old saying goes: "people don't plan to fail, they just fail to plan".

That's why it's important to keep an eye on your super savings strategy and, rather than taking a set and forget approach, an annual review of your superannuation should be conducted.

These days, we have much more choice available in terms of how and where our super funds can be invested. All funds will offer a degree of flexibility in terms of asset allocation, allowing you to tailor your investment strategy according to your personal appetite for risk.

Generally, this is provided for within the fund through either "balanced" portfolio options – which spread your funds across a number of asset categories – or "growth" portfolio options – which tend to involve a higher concentration in listed shares and leveraged or geared (assets purchased partly with borrowed funds) assets.

But it's vital that you are well informed when it comes to managing your asset allocations. Also, as we have seen recently, regulations governing superannuation and investment strategies are subject to change.

Regardless of who you are, it's important to receive professional advice. Personal circumstances may change from year to year, so a regular review will ensure that your strategy continues to match your needs.

essential tips

- Start saving as early as possible. It's your retirement nest egg.
- Look at setting up an automated contribution deduction process from your pay.
- Take advantage of tax breaks to maximise your superannuation contributions.
- Seek professional financial advice to keep abreast of regulatory changes.
- Review strategies regularly so you can adapt to changing circumstances.

setting the scene

do i have enough super?

You can never have enough superannuation, but it really comes down to the lifestyle you want to have in retirement.

It's an unfortunate reality that a high percentage of older Australian retirees do not have enough funds at hand to see them all the way through their retirement years.

Having accumulated superannuation throughout your working life, the hope is that there will be enough of an income stream when you retire to give you the sort of comfortable lifestyle you were planning on, without having to go without or change the lifestyle you have become used to.

Yet, having retired at perhaps age 65 with what they believed was a suitable retirement nest egg from their accumulated superannuation, many Australians are finding that 10 or 15 years down the retirement track their money pool is quickly evaporating.

A study by ASFA (the Association of Superannuation Funds in Australia) shows that single people who own their own homes will need $34,839* per year to have a comfortable standard of living (to enjoy leisure and recreational activities and occasional international travel, to maintain a reasonable car, clothes and electronic equipment). If you were to spend 25 years in retirement, then this means you will need at least $870,975 in super, and that's before considering the impact of inflation.

Calculating how much super you need comes down to not only when you want to retire, but also depends on how long you are going to live. You can certainly decide when you are going to retire, but obviously very few of us know how long we are going to live for.

** 'How much do you need to spend to have a comfortable standard of living in retirement?': commissioned by Westpac from the Association of Superannuation Funds of Australia, February 2004.*

It's also true that when you are older you may not need as much regular income as you do now. Your mortgage and major debts will probably be paid off by then. But having enough money to fund your living costs, to take a regular holiday if you want to, and perhaps to upgrade your car, are all things you need to account for in the planning process. In later retirement years, you may need to hire people to care for you, to clean the house or to mow the lawn.

So the answer to how much is enough super will really depend on your personal circumstances. The most important thing is to know how to manage your circumstances in the best way, which includes knowing if you are entitled to government pension benefits.

Having the right structure in place can make an enormous difference. That is another reason why you should seek professional advice, as an adviser will be able to help manage the process for you.

what are the rules?

While there has been much simplification of the system recently, the rules governing superannuation are still quite complex and how they affect you will depend on your specific circumstances.

In 2007, the Federal Government introduced a number of key changes aimed at encouraging Australians to save more, through superannuation, towards their retirement.

The rules were focused on encouraging people to work longer. Probably the biggest single change was making superannuation tax-free after the age of 60. This means that many individuals are likely to be less keen to retire and withdraw their benefits between age 55 and 60.

The combination of working longer and being able to save more through tax-effective strategies is very powerful. Most importantly, you will be able to afford to retire with a better standard of living. By working a few days a week and receiving tax-exempt income from your pension, you may potentially even be able to enjoy a better standard of living indefinitely.

But it's not just about money. It's also about the fact that if you keep active and keep working, you are likely to remain nimble, healthier and fitter, and have a better quality of retirement life.

tax-free income

Among the major changes from 1 July 2007, the tax on benefits received from superannuation (ie lump sum withdrawals and/or pension payments) is abolished for all Australians who can and do choose to access their benefits at age 60 or above.

reasonable benefit limits

The former limit of how much workers could accumulate within the superannuation environment before being taxed at a higher rate, known as the Reasonable Benefit Limit (RBL), was also abolished. This enables workers to accumulate an unlimited amount of retirement savings without tax penalty. The RBL had previously restricted super benefits that were concessionally taxed to $648,946 for a lump sum, and approximately $1.3 million for those who took at least 50 per cent of their super as a complying income stream.

aged-based limits

The previous age-based limits on personal deductible super contributions was also simplified. The new system allows a full deduction for personal contributions made by eligible persons. However, a cap on concessionally taxed contributions effectively limits the amount of deduction that a person would claim.

The cap on such contributions is $50,000 (indexed annually). However, a transitional provision allows for a higher cap of $100,000 (non-indexed) for a person aged 50 or more in any financial year before 2012/2013. This represents a fantastic opportunity for many baby boomers to boost their super.

contributions

In addition, people with assets outside of super can make an additional $150,000 contribution from after-tax amounts (known as non-concessional contributions) to super. This allows the proceeds from the sale of assets such as share portfolios, proceeds from a property or business sale to be contributed to super. To accommodate larger contributions, people under age 65 will be allowed to bring forward two years of contributions therefore allowing them to contribute up to $450,000.

self-employed

Superannuation contributions from the self-employed (and other eligible persons) are now 100% tax deductible until age 75. Previously the self-employed could only claim a 75% tax deduction on amounts over $5,000 per annum and were limited to age based limits.

assets test

Changes to the Centrelink regulations (specifically the pension assets test taper rate) mean that since 20 September 2007 pension recipients only lose $1.50 per fortnight (rather than $3) for every $1,000 of assets above the relevant threshold.

People with significant investments can still qualify for part-age pensions. These changes to the assets test present a good opportunity for people aged 60 and above, and even a few years away from retirement, to improve their Centrelink position.

superannuation choice

Most Australians have more choice than ever before when it comes to where they invest their superannuation funds.

As well as being able to switch providers whenever you want, subject to some restrictions, you can even set up your own self-managed fund to control the process yourself.

"Choice" means that you can choose which fund your super is contributed to rather than your employer choosing. In assessing your super arrangements you may also wish to consider the benefits of making additional contributions, consolidating multiple super funds and the variety of investment options available to you.

The most important thing is to do plenty of research before making any major decisions. Exercising super choice should be based on long-term goals and not the short-term performance of particular funds.

about choice

- Those eligible can nominate any complying fund of their choice, even a self-managed super fund.
- Employers must give eligible employees a Standard Choice Form.
- If you change funds, your employer must begin paying into your new fund within two months of your nomination.
- Penalties apply if your employer does not begin payments in two months.
- You can only change funds once every 12 months.
- Choice is not compulsory – you have the choice to change if you want to.

co-contributions

Through the Super Co-contribution initiative, introduced in 2003, the Federal Government will deposit up to $1.50 for every $1 you contribute into an eligible superannuation scheme if you have income from personal exertion and your income is below certain thresholds (see table). The maximum that can be paid is $1,500.

You will receive the co-contribution for each year that your total income is less than the higher income threshold, and you meet the eligibility requirements and make personal after tax superannuation contributions.

co-contributions table

	lower income threshold	*higher income threshold*	*amount received*	*maximum*
From 1 July 2004 until 30 June 2007	$28,980	$58,980	$1.50 for every $1, up to a maximum co-contribution of $1,500 a year	An amount reduced by 5c for every dollar of total income over $28,980
From 1 July 2007	Lower income threshold will be indexed on an annual basis. Each year, the higher income threshold will be the lower income threshold + $30,000		$1.50 for every $1, up to a maximum co-contribution of $1,500 a year	An amount reduced by 5c for every dollar of total income over the indexed lower income threshold

Source: Australian Taxation Office

super splitting

One of the new strategies arising from recent superannuation rule changes is allowing funds to be transferred from one spouse's super account to the other's.

The introduction of superannuation contributions splitting from 1 January 2006 for contributions made has enabled couples to better manage their tax positions by allowing higher-earning partners to make contributions into the accounts of their low-income or non-income earning spouse.

Couples nearing retirement age can also undertake "reverse splitting", whereby the super contributions of the younger spouse are transferred up to the older spouse.

The benefits of doing this go back to the scrapping of tax on superannuation benefits for those aged 60 years and older and the removal of Reasonable Benefit Limits, which restricted the amounts retirees could access tax effectively from their super as a lump sum or a pension income stream.

Once accumulated funds are moved from superannuation into a pension, the tax on investment earnings becomes zero.

It is allowable to move up to 85% of deductible superannuation contributions that have been made to your account each financial year across to your spouse's super fund, however this amount cannot be more than the $50,000 concessional cap (or $100,000 if you are over 50). For low-income and non-working spouses, the ability to split contributions allows them to fully participate in superannuation.

The super splitting legislation generally applies to compulsory employer contributions, tax deductible contributions by self-employed people and small businesses and salary sacrifice contributions.

accumulation strategies

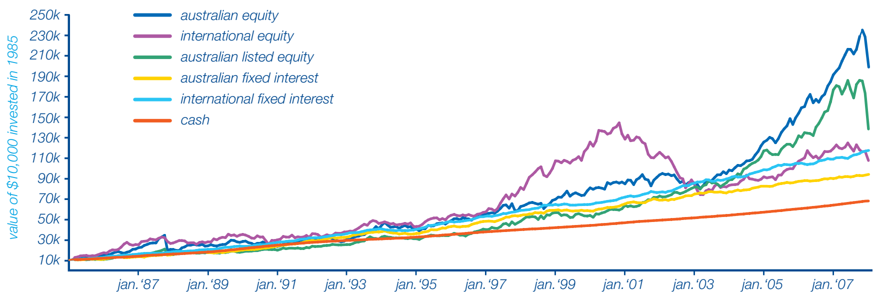
Having a well balanced and diversified portfolio is critical to achieving consistent returns over the long term.

As we have seen many times, markets and investment returns will rise and fall.

Experience shows us that markets are periodically quite volatile for a whole range of different reasons. So it is important to take a carefully considered approach when looking at what investment options there are, and then determining what investment styles are most suitable to your needs.

A lot depends on your risk profile, and it's important to work with your financial adviser to determine a strategy for achieving your desired objectives that is tailored to your individual circumstances.

growth of the asset classes



Source: Aviva Research

balanced versus growth

Within superannuation, two of the many investment options available within complying superannuation schemes involve taking a "balanced" or a "growth" approach.

A balanced fund will typically take a more conservative investment approach, investing across a broad range of asset classes, whereas a growth fund will be more aggressive, generally focusing on higher weightings of Australian and international equities and higher-growth investment assets.

Taking a balanced investment approach reduces risk, so that no matter what investment and market cycles are doing at a particular point you are likely to achieve a more consistent return over time.

Do you want to take extra risk to achieve a higher return, or do you want to vary your expectation based on the level of income you need in retirement?

It all comes down to your risk appetite. You should seek advice from your financial adviser because trying to assess your own risk profile isn't advisable as you might be overly conservative when it's not appropriate for you, or overly aggressive than you may need to be to provide your income needs!

changing needs

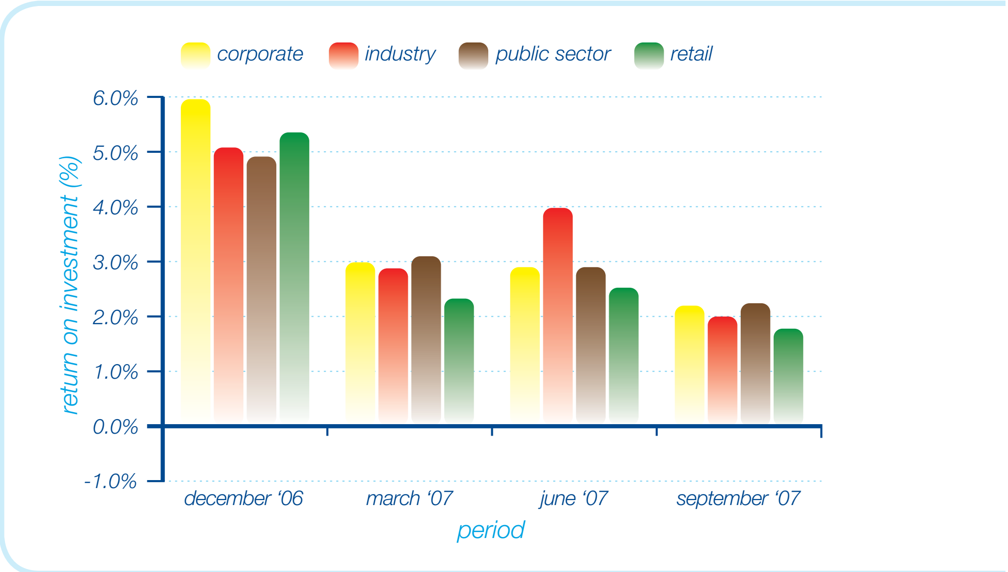
Different investment strategies are also appropriate during various stages of our lives depending on our circumstances at a particular time. For example, having determined how much you will roughly need in retirement, you will need to follow an investment strategy that will help you get there. This may be a growth strategy if you need to invest aggressively to achieve a desired level of funds, or a more conservative approach if you already have sizeable superannuation assets and don't need to increase them significantly or wish to reduce your exposure to riskier assets.

regular review

Superannuation is for the long term. Markets will rise and fall over a normal cycle. When they do fall, it's quite possible your overall returns and capital will decrease. However, if you're not selling market linked investments at such times, there's no need for concern because over time your funds and returns will increase.

The important thing to remember is that even with superannuation, nothing is set in concrete. You should undertake a review annually, or at least every two to three years, because your perspective or circumstances may change over time. Your adviser will be able to recommend the most appropriate strategy for your circumstances.

average return on assets from balanced investment portfolios



Source: APRA Statistics Quarterly Superannuation Performance, September 2007

transition to retirement

Up until mid 2005, individuals reaching the age of 55 effectively had two choices when it came to their retirement and accessing superannuation.

Having reached the Government's deemed preservation age, they could either retire permanently from work, opting to take a lump sum or retirement income stream from their super, or they could just keep on working. For those wanting to reduce work hours, however, there was no ability to access their super, which meant a reduction in their overall income.

From 1 July, 2005, the Government introduced a third option, allowing people aged 55 and over (the preservation or the general age at which time super may be accessible, for everyone born before 1960) to tap into their super by taking a pension stream and still keep working at the same time.

Called the Transition to Retirement (T2R) initiative, it is now much easier for older Australians – including those who are self-employed – to reduce their working week and transition to retirement. No work test is imposed and there is no cap on the level of benefits a person can access.

Under the transition legislation, eligible individuals can continue to work full-time and salary sacrifice more pre-tax income into their superannuation, which will be taxed at just 15% within the fund rather than at the individual's marginal tax rate which could be as high as 46.5%. This means they can continue to accumulate superannuation within a low tax environment so they have more funds available when they do fully retire, without adversely affecting their current lifestyle!

Individuals using Transition to Retirement must take their benefit in the form of a non-commutable income stream, meaning it cannot be taken as cash until they fully retire or turn 65.

transition to retirement strategies include:

- Cut back on hours and use your super income stream to make up the shortfall.
- Work full-time and generate income tax-effectively. It's the pay rise you never knew you had.
- Salary sacrifice into super and replace your salary with a tax-effective income stream. From 1 July, 2007, this becomes even more tax effective after you turn 60 when your pension income becomes tax exempt.

(Note; Care needs to be taken when entering into Salary Sacrifice arrangements. Poorly constructed salary sacrifice agreements may result in the loss of some Super Guarantee Contributions and may see other employer benefits such as leave enetitlements based on the reduced retained salary component)

the mechanics of transition to retirement

Transition to Retirement is quite a simple yet profound concept. Any person who has reached preservation age but does not meet the definition of retirement under superannuation law, can fully or partially roll over their superannuation benefits into a "non-commutable income stream." This is termed a limited condition of release.

Importantly, the Transition to Retirement income stream receives many of the normal pension tax concessions including:

- A tax-free amount (where applicable)
- A 15% tax offset (reduction) on assessable pension income
- 0% super fund tax on investment earnings within the pension fund

Any of the existing income stream products can be used, e.g. Account Based pensions, fixed or lifetime annuities – as long as the product has, or the product provider sets up, the required "non-commutable" restrictions.

This "non-commutable" requirement means exactly that – no cash payments in addition to the pension or annuity installments (subject to certain exceptions), until a full condition of release is met – eventual retirement, or permanent incapacity, for example.

However, the main exception, and the real beauty of the policy, is that a person is able to commute back into the accumulation phase of superannuation. One likely advantage here is that this rule should allow a person to respond to any legislative changes that may make the transition pension, or any strategies associated with it, detrimental.

preservation age

The preservation age of a person will depend on their date of birth, as follows:

date of birth	preservation age
Before 1/7/1960	55
1/7/1960 – 30/6/1961	56
1/7/1961 – 30/6/1962	57
1/7/1962 – 30/6/1963	58
1/7/1963 – 30/6/1964	59
From 1/7/1964	60

Source: Australian Taxation Office

case study
karen, 50

Losing a life partner is one of the hardest, and saddest, times in our existence. This experience can throw up a range of new responsibilities for the survivor, not the least of which in Karen's case was managing the family's financial affairs.

Karen's husband, Tim, was a successful businessman who believed in life insurance. As a result, in her widowhood Karen was left financially comfortable. However, a comparatively young woman, and wanting to remain engaged in the community, Karen continued her work on a part-time basis as her and Tim's two children grew up. Now aged 50, Karen asked a financial adviser to help her maximise the returns she was getting on her investments, which are principally held within the company she and Tim had set up.

Much to Karen's surprise, her adviser explained it is possible for under 65-year-old company principals (in this case Karen) to gradually migrate her equity from the business to the superannuation environment - while supercharging her investment through the franking credits built up in the company over the years and by claiming a major tax deduction for the contributions to super of cash dividends paid from the company.

After Tim's untimely death, Karen was left with a significant after tax company cash profit, which is still held within her family company.

If Karen just simply pays herself all the cash in the company as fully franked dividends, she will be up for a further 16.5% tax, over and above the 30% tax already paid by the company.

However, as Karen is 50, she is eligible to migrate $100,000 pa as deductible contributions, for the next five years, into her super fund.

Karen has recently commenced doing so, by salary sacrificing all of her salary to super and contributing cash dividends received from her company to super as well.

In other words, by using the government's transitional $100,000 deductible super contribution limit (that applies for those over age 50) during the period 1 July 2007 to 30 June 2012, Karen can, in a structured manner, transfer not just the cash held in the business very tax effectively, but also transfer a significant portion of the company's Imputation Credits to her super accounts as well.

Thus over the next five years Karen will transfer all of the profit held within the company, significantly reducing the tax she has to pay, and eventually winding the company up.

Her income needs are met in part by the cash dividends paid from her company plus the tax refunds as a result of her refund of Imputation Credits each year!

Karen will also even be contributing part of her Imputation Credits as "after tax super contributions" to her superannuation fund during this period.

By using this approach, Karen should be able to grow her retirement "kitty" significantly in the lead up to her full time retirement, allowing her to have the kind of reward at the end of her working life she and Tim had planned.

case study karen, 50

How this type of Dividend Super Streaming and Super Salary Sacrifice Strategy would work is summarised in the case study example which follows:

case study example *(based on 2007/08 tax rates)*

	without dividend super streaming and salary sacrifice strategy	*with dividend super streaming and salary sacrifice strategy*
$30,000 pa gross salary, $2,700 superannuation guarantee pa		
salary package	$32,700	$32,700
salary	$30,000	Nil
salary sacrifice	Nil	$30,000
superannuation guarantee	$2,700	$2,700
gross take home salary	$30,000	Nil
gross private dividend cash flow	$70,000	$70,000
gross private dividend imputation credit	$30,000	$30,000
total gross assessable income	$130,000	$100,000
less personal super deduction	$0	$67,300
total gross taxable income	$130,000	$32,700
tax payable	$39,100	$4,410
medicare levy payable	$1,945	$491
tax offsets	$30,000	$30,108
net cashflows (incl imputation credit tax refund)	**$88,950**	**$27,907**
super		
opening balance	$400,000	$400,000
non concessional contributions of excess cashflows	$61,043	Nil
deductible super contributions	$2,700	$100,000
earnings (est. 7% pa gross)	$32,487	$35,000
tax payable	$5,278	$20,250
closing balance	**$490,952**	**$514,750**

Source: Marinis Financial Group

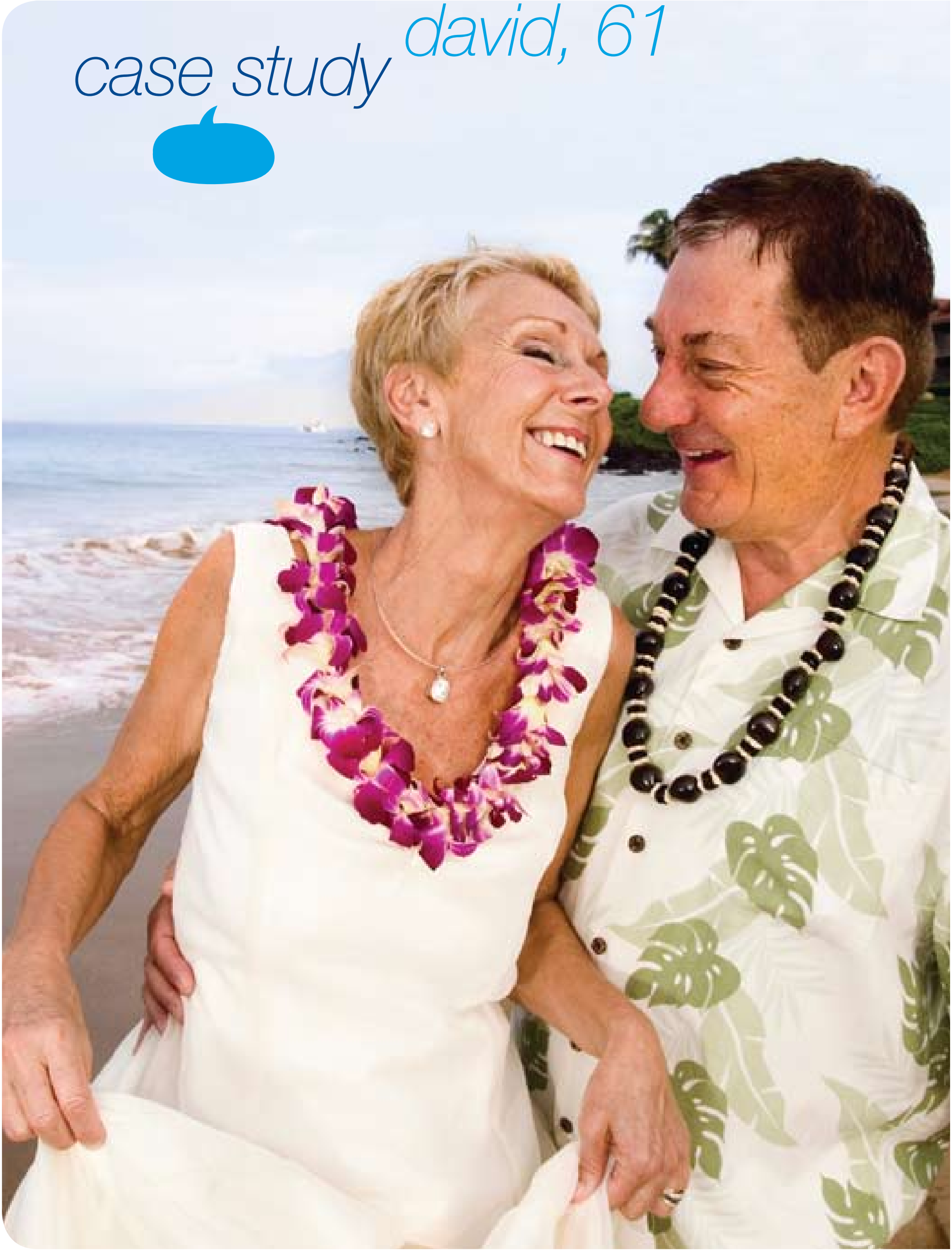
Karen's income needs are satisfied by the $27,907 pa net income achieved by this strategy. Further, there is enough flexibility in the strategy should she require additional income or lump sums for holiday etc.(eg: via simply drawing larger cash dividends from her company).

Clearly, with such a strategy, Karen is gradually transferring her wealth, very tax effectively, from her private company to the very tax effective super environment, in preparation for her eventual full time retirement.

In doing so, she receives refunds of much of her private company Imputation Credits along the way to fund her living expenses.

Karen will increase her super by $23,798 per annum thanks to this dividend streaming, super contribution strategy.

case study david, 61



case study david, 61

For David, aged 61, and his wife Kerrie, Transition to Retirement has been a perfect strategy for building up their superannuation balance in a tax-effective way while they both continue to work.

David, a professor of economics, and Kerrie, a historian and contract editor, made the decision to salary sacrifice as much as they could afford into their superannuation after T2R legislation was enacted.

The result has been a significant increase in their superannuation balance over the past few years, which David says will give the couple much more flexibility and income when they do finally decide to retire.

"We now have a lot of options and flexibility, including the option to work part-time," says David. "It's very nice to have the flexibility of planning how much you want to work and when you want to retire."

David can look forward to a comfortable defined benefit pension from his university superannuation scheme, in addition to income paid from a general superannuation account.

"Once we do decide to retire I think we will be fairly comfortable, but we still have the option of continuing with some part-time work if we would like to stay occupied."

How this type of T2R and Super Salary Sacrifice Strategy would work is summarised in the case study example which follows:

case study example (based on 2007/08 tax rates)

	without transition income stream	*with transition income stream super salary sacrifice*
$90,000 pa gross salary, pension, salary sacrifice		
salary package	$98,100	$98,100
salary	$90,000	$30,000
salary sacrifice	Nil	$65,400
superannuation guarantee	$8,100	$2,700
gross take home salary	$90,000	$30,000
account based pension	Nil	tax exempt 1/7/2007
total gross take home income	$90,000	$30,000
deductible amount	Nil	Nil
assessable income	$90,000	$30,000
tax payable (net of tax offsets)	$23,100	$2,350
medicare levy payable	$1,350	$450
pension tax offset	Nil	Nil
net income	**$65,500**	**$65,500 ($27,200 net salary + $38,300 tax free pension payment)**

case study example *(based on 2007/08 tax rates)*

	without transition income stream	*with transition income stream super salary sacrifice*
super		
opening balance	$600,000	transferred to pension
contributions	$8,100	$68,100
personal after tax contribution/co-contribution	Nil	$2,449
earnings (est. 7% pa gross)	$42,567	$4,767
tax payable	$7,600	$10,930
closing balance	**$643,067**	**$644,370**
transition income stream		
opening balance	Nil	$600,000
pension received	Nil	($38,300)
earnings	$42,000	$42,000
closing balance	Nil	$603,700
total super and/or transition pension balances	**$643,067**	**$668,137**

Source: Marinis Financial Group

Clearly with such a strategy, David is able to save tax and significantly beef up his super in the years leading up to permanent retirement.

David's personal tax bill drops from $24,450 to $2,800 due to his Salary Sacrifice contribution, yet his available income is unchanged at $65,500 due to his tax exempt T2R pension income, which has replaced his Salary Sacrificed income.

As a result of the strategy, David will qualify for full Low Income and Mature Age Worker Tax offsets.

Further, should David also choose to make an additional $1,000 after tax super contribution, he will also now be eligible for approximately $1,445 of government co-contribution.

These T2R rules clearly allow workers to save on tax and beef up their super. However, workers aged over 55 can also use these new provisions to supplement part-time wages, receive extra tax-effective income or step up super savings, as demonstrated above.

This advice may not be suitable to you because it contains general advice that has not been tailored to your personal circumstances. Please seek personal financial advice before acting on this information.

superannuation timeline

1985

The ACTU, with support from the Hawke Government, seeks 3 per cent contribution to be paid by employers to industry funds. Its case before the Conciliation and Arbitration Commission fails to win blanket super but it does approve industrial agreements to provide for 3 per cent of wages paid to approved funds.

1986

Preservation of superannuation benefits is introduced.

1988

Labor Government introduces 15 per cent tax on contributions by employers and tax-deductible contributions by self-employed, plus 15 per cent tax on investment income within super.

1991

The ACTU and the Government argue in the Industrial Relations Commission for a further 3 per cent contribution payment but it is rejected.

Labor Government's 1991-92 Budget introduces mandatory super system through the Superannuation Guarantee (SG).

1992

The SG system comes into effect on 1 July, requiring superannuation contributions of 5 per cent of ordinary time earnings for employees of employers with an annual payroll in excess of $500,000, and 3 per cent for all other employees.

1995

Keating Government proposes a compulsory member contribution of 3 per cent with a matching contribution from government but a change of government in March, 1996 means this does not happen.

1996

In its first Budget in August, the new Howard Government introduces a surcharge on super contributions by high-earners, which is abolished in the 2005 Budget.

1997

Mandatory employer super contributions under the SG system rise to 6 per cent.

1998

Mandatory employer super contributions rise to 7 per cent.

2000

Legislation introduced to allow separating couples to split the value of their superannuation by agreement or by court order.

2000

Only 13 per cent of super fund members are in defined benefit schemes, down from 80 per cent in 1982-83.

Mandatory employer super contributions rise to 8 per cent.

2002

Self-employed people gain a bigger tax deduction for their super contributions.

Mandatory employer super contributions under the SG system rise to current level of 9 per cent.

Federal Government co-contribution introduced to match personal contributions of up to $1,000 paid in by employees earning up to $32,500. Expanded in following years and today people earning up to $58,000 can claim some co-contribution.

2005

Transition to Retirement provisions introduced to allow people aged over 55 to reduce their working hours and supplement their income with a pension from their super benefit.

2006

Couples allowed to split their future super contributions.

Simpler Super changes announced in May Budget, with immediate restrictions on how much money people can inject into super.

2007

Simpler Super changes to come into effect on 1 July, renamed Better Super

Source: ASFA – The Voice of Super

superannuation assets

fund type	total assets ($ billion)	no. of funds
corporate	74.0	271
industry	204.9	74
public sector	181.4	39
retail	379.9	176
pooled superannuation trusts	86.6	101
small APRA funds	3.3	5,916
single-member ADFs	0.2	147
self-managed super funds	299.7	368,046
balance of life office statutory funds	43.6	
total	1,186.9	374,770

Source: APRA Statistics Quarterly Superannuation Performance, September 2007

average balance (2003–04)

	age	overall
men	all	$56,405
men	60-64	$108,377
women	all	$23,899
women	60-64	$36,614

Source: ASFA, Are retirement savings on track? June 2007

insurance

Topping up your life insurance makes sense when it comes to protecting you and your dependants from unforeseen events, particularly if you just have a basic level of cover through a company superannuation scheme. But how you decide to go about topping up your cover – inside or outside of your superannuation structure – is also really important.

Choosing which way to go will depend on your personal circumstances. It's important to choose wisely, because doing things the wrong way could have serious consequences. For example, in certain situations, your family may have to pay higher amounts of tax on your life insurance benefit, after your death, than they would otherwise have needed to if your insurance was set up differently.

Topping up your insurance within an employee super fund does have an element of convenience because the premiums are generally deducted from your superannuation contributions. This could come from pre-tax salary in each payment cycle or even the 9% compulsory superannuation guarantee contribution. Because the life cover component is considered a super contribution, and is packaged through you salary, your sacrificed super amount is FBT exempt. Using pre-tax dollars also reduces your PAYG tax bill.

In addition, couples with one higher income earner can arrange their affairs so that the co-contributions fund the lower income spouse's risk cover if they are eligible for Government co-contribution payments.

Beyond this convenience factor, however, group life insurance cover cannot be tailored to your unique needs. As your circumstances change it is very hard to modify the cover to meet your revised requirements.

An exception to this is a self-managed super fund, which can buy insurance cover on your behalf that is tailored to your individual needs. The super fund can own a high amount of cover (although the cost will be higher than the group life rates achievable under a company super fund) and when you die the super fund will pay that to your estate.

Taking cover through a self-managed fund does mean, however, that the fund trustee decides how any death benefits are to be distributed. This can become complicated because the trustee will still need to comply with both the superannuation law and tax law regarding payouts.

The trustee must determine who the dependants are, which can also become complex in situations where a divorce has occurred and there are dependants in different families. There can be taxation implications where the trustee pays benefits to individuals not financially dependant on the deceased. Binding nominations will tell the trustee who should be paid but not how the proceeds are to be paid. There will be different tax outcomes depending on how the benefits are to be paid out.

By comparison, taking out your life insurance outside of your existing superannuation structure is generally a lot simpler. Taking this approach means that any payout will be made directly to your nominated beneficiary, eliminating the need for your trustees to distribute the funds to other dependants.

Getting the right professional advice on how to best structure your life insurance is very important. Please talk to your financial advisers about your insurance needs.

estate planning

Personal estate protection

Personal estate protection is becoming a greater concern for many families. Issues to consider are:

- tax on end benefits
- government tightening of Social Security entitlements
- protection of family lifestyle
- who the benefit will be paid to

Maximise your benefits

As life insurance and superannuation benefits make up a large proportion of your wealth, it is important to manage these benefits in order to maximise the potential benefits to you and your family.

A traditional approach to managing estate planning needs has been through numerous separate superannuation and life insurance policies, in addition to a legal will.

With personal estate protection you can consolidate your life insurance and superannuation into one straight forward and tax-effective estate planning solution.

There are a range of estate planning opportunities available under the new simplified superannuation rules.

For example, because benefits paid from superannuation will become tax exempt after age 60, there is the ability for retirees to draw out lump sums and pay funds tax-free to their children while they are alive rather than passing on a taxable benefit to them after their death, particularly where you only have adult children.

There are other strategies that you can consider when it comes to the estate planning benefits of superannuation such as the continuation of your pension to your spouse, or maximising the tax-free benefits that can be paid to your adult children.

This is a complex area and it is best to seek qualified financial advice to ensure you are making the most of your estate planning.

self-managed super funds

Self-Managed Superannuation Funds (SMSFs), Do-It-Yourself Funds (DIYs) or Family Funds are for all intents and purposes one and the same thing.

They mean that you are the owner, controller and administrator of your own super fund. So instead of relying on a larger company or industry fund to invest your superannuation dollars on your behalf, you make contributions into your self-managed fund and determine where they're invested.

The major advantage of a self-managed fund is that you have control. Under law you are the trustee of the fund and you make all the decisions on behalf of the fund, determine the investment strategy and the processes that need to be followed (provided they are within the scope of superannuation laws). You can direct your funds into a wider range of tax-effective investments and potentially achieve high returns.

Setting up a self-managed fund provides greater investment control and flexibility, however that control also demands greater responsibility and accountability. You need to make sure your fund strictly complies with all its responsibilities under law, including its reporting obligations to the Australian Tax Office. All super funds must comply with the requirements of the Superannuation Industry (Supervision) Act and may lose access to income tax concessions if they don't. While you do have more investment flexibility, there are strict guidelines on where you can and can't invest.

The costs of running your own fund correctly are high because, as well as set-up costs, you will need experts such as your accountant and financial adviser to ensure you are meeting all the legislative requirements for reporting on an ongoing basis. A careful cost-benefit analysis is required.

self-managed super funds

There are differing views on the level of funds required in existing superannuation to make the costs payable to administer a self-managed fund worthwhile. Some experts suggest the amount should be at least $100,000, while others recommend that investors should have between $200,000 to $250,000. The answer is that the level is very subjective. For people earning lower wages this option may not be worthwhile because there is less opportunity for them to gain a tax advantage and the costs, with a lower account balance, will probably be prohibitive.

While the cost of running a fund will be higher as a percentage on a smaller dollar amount, the other advantages of having a self-managed fund, such as greater control over where funds are invested and more tax control, may outweigh the cost factors. As the fund builds in value over time, the cost level will decline anyway.

Administration of the fund can be outsourced but as trustee you are still responsible for ensuring all the compliance requirements of the fund are being managed properly.

Trustees must also meet the sole purpose test, meaning the fund can only be used as a retirement savings vehicle for long-term returns. It cannot hold assets that can be used for personal benefit and all assets must earn a commercial rate of return on behalf of the fund.

Overall, having your own fund requires a strong understanding of all the legal requirements. It also requires a hands-on approach, so you must know what is happening with your funds at all times.

But while running your own fund is certainly a big responsibility, the benefits of doing so can also be very compelling for some people and the returns very rewarding over the longer term.

Importantly, operating your own super fund is not for everyone. The vast majority of people don't need a self-managed fund unless they want to invest in a way that cannot be done through a traditional platform, such as into direct property.

By nature, self-managed super funds require you to spend more time actively managing your investment strategies. If you would like to explore the self-managed option further, it is highly recommended that you seek professional advice from your accountant and an authorised financial planner.

self-managed funds pros

- You make all the investment decisions on behalf of the fund.
- You can direct your funds into a wider range of tax-effective investments to achieve high returns.
- You control when the 15% contributions tax is payable.
- You can use a range of capital gains and imputation strategies.
- You can achieve economies of scale by having several family members in the one fund.
- Life and other insurance covers can be given tax-effectively to members of the fund.

self-managed funds cons

- You need to make sure your fund strictly complies with all its responsibilities under law. If you don't, you can be very heavily penalised, possibly even imprisoned.
- Administrative obligations are complex and constantly changing. They involve establishing a Trust Deed, the appointment of trustees, being regulated under the Superannuation Industry (Supervision) Act and other responsibilities.
- While you do have more investment flexibility overall, there are still strict guidelines on where you can and can't invest.
- Self-managed funds are not suitable for small amounts. To avoid prohibitive fees, a minimum level of funds should be $100,000.
- The costs of running your own fund can be high and may outweigh the financial benefits.

preparing for retirement

Planning for retirement should start in earnest by age 50, if not earlier. Serious consideration should be given to Transition to Retirement as a strategy for anyone who has reached preservation age (currently 55) and is still working. This allows you to scale down your working hours while continuing to grow your super balance.

Boosting your salary sacrifice contribution while working will enable you to save more into your super and have a better standard of living when you do finally retire. Furthermore, the tax effectiveness of such a strategy makes it even more attractive.

After age 60 all super benefits are tax exempt, and after age 65 you can continue to work and may also receive the Federal Government's pension bonus scheme. The maximum bonus is received if you defer receiving a pension for five years.

If you are planning to retire, or have just retired there are some very important decisions to make in terms of mapping out your future goals.

Your retirement plans will ultimately dictate your financial needs as well, so it's important to consider a firm plan for creating a regular income stream from your superannuation savings. No matter how much you have saved away in super, the later you need to start drawing on it and the better you manage your draw-downs, means you will need less capital to provide your retirement income needs.

case study

case study

Imagine being in a position where you are earning more in retirement than when you were working full-time.

That is exactly the case for Max and Rosemary, who are enjoying life in retirement to the fullest thanks to good financial advice and careful planning.

Max, a former public servant, commuted his defined benefit pension before retirement, and took a 50 per cent lump sum withdrawal of his defined benefit pension to gain access to additional funds and later to Centrelink.

Rosemary achieved pension age in early 2005 and by commuting part of her allocated pension and rolling over the remainder into a term allocated pension, her age pension entitlement was significantly improved under the assets test.

They are now both eligible to receive part age pensions, and through their combined pension incomes they now earn more, on a net basis, than when they were working full-time.

"Our income after-tax is now better by a long way than when we were working, so we're not complaining," says Max. ***"We budget for a new car every five years and take local holidays every year, and a major trip every two to three years."***

"It's a good lifestyle. We don't have to think too much about when we go out to dinner or when I buy a new shirt."

Max says getting to the position where he and Rosemary are now could not have been achieved without professional financial advice.

"Just knowing what we could do and what our entitlements were – we couldn't possibly have worked all that out for ourselves without an experienced adviser that we were very comfortable with."

How this strategy to maximise age pension benefits and access to lump sums would work, is summarised in the case study example which follows:

based on 2007/08 tax rates (Max and Rosemary both aged 65)

combined income and tax position	*without defined pension lump sum withdrawal*	*50% defined benefit pension/50% lump sum withdrawal*
defined benefit pension (untaxed)	52,000	26,000
combined age pensions	4,566	14,966
total gross taxable income	56,566	40,966
tax exempt account based and term allocated pensions (5% of $320,000 account balance)	nil	16,000
tax payable (net of Tax Offsets)	6,271	544
net income	50,285	56,422

Source: Marinis Financial Group

Clearly as a consequence of this type of strategy to maximise age pension benefits and access to lump sums, Max and Rosemary are able to save a significant amount of Max's personal tax liability. This is due to the reduction in Max's taxable Defined Benefit pension (as a direct result of the withdrawal and re-investment of Max's available Defined Benefit pension lump sum transferred into a private super, tax exempt Account Based and Term Allocated pensions).

Max's personal tax bill drops from $6,271 to $544 pa, due to his reduced "taxable" income, yet their total available income increases by $6,137 pa.

As a direct result of such a strategy, Max and Rosemary will qualify for additional Age Pension benefits of approximately $10,400 pa and receive $16,000 pa from their private super tax exempt Account Based and Term Allocated pensions.

In addition, Max and Rosemary will retain full access to approximately $160,000 of Max's 50% Defined Benefit pension proceeds transferred to the private super, tax exempt Account Based Pension, for any unforseen lump sum or additional income needs.

(NOTE: With changes to super law not all strategies are repeatable, however the Federal Government has "Grandfathered" superannuation strategies to allow compliance for what was legal in the past.)

useful links

Association of Superannuation Funds Australia

phone | 02 9264 9300 or 1800 812 798
www.superannuation.asn.au

Australian Financial Planners Association

phone | 1800 626 393
www.fpa.asn.au

Australian Prudential Regulation Authority

phone | 1300 13 10 60
www.apra.gov.au

Australian Securities and Investments Commission

phone | 03 5177 3988
www.asic.gov.au

Australian Tax Office

phone | 13 1020
www.ato.gov.au

Centrelink

phone | 13 2300
www.centrelink.gov.au

FIDO

phone | 1300 300 630
www.fido.asic.gov.au

Investment and Financial Services Association

phone | 02 9299 3022
www.ifsa.com.au

National Information Centre on Retirement Investments

phone | 02 6281 5744
www.nicri.org.au

Simpler Super website

www.simplersuper.treasury.gov.au

glossary of terms

After tax

Income on which tax has been paid

Asset Allocation

The distribution of a Fund's investments among various asset classes or sectors.

Authorised Investments

Those investments in which a Trustee is empowered to invest a Fund's assets.

Benefit

The amount of money that a member is entitled to receive from a superannuation fund on retirement, death, disablement, or other circumstances specified in the Trust Deed.

Contributions

Money paid - either by an employer, an individual or a spouse on your behalf - to a superannuation fund.

Concessional Contributions

These are contributions to super for which a tax deduction may be claimed by the person making the contribution (subject to the relevant contribution caps)

Eligible Spouse Contributions

Contributions made by a person to a complying superannuation fund to obtain superannuation benefits for their spouse (or, on the spouse's death, the spouse's dependants).

Financial Adviser

A qualified and competent professional who has a detailed understanding of the complex laws surrounding investment and retirement saving who can design a strategy which maximises a person's financial resources in retirement.

Member

A person who has qualified to join the superannuation fund and who will, in the future, receive a benefit from that fund.

Non-preserved benefits

Your super benefit may contain amounts which are non-preserved - these may be restricted or unrestricted. The unrestricted amount can be taken as cash at any time, even if you are still in employment. The restricted non-preserved portion can only be taken as cash under certain circumstances.

Non Concessional Contributions

These are contributions to super for which no tax deduction is claimed (subject to relevant contribution caps).

Preserved Benefit

The part of your superannuation benefits that must be maintained either in a superannuation or rollover fund until retirement after your preservation age or another allowable condition of release is met.

glossary of terms

Preservation Age

The age at which a member can gain access to preserved benefits, on the basis of an event usually retirement.

Pre tax dollars

Income on which no tax has been paid

Reasonable benefit limit

A lifetime limit on the amount of concessionally taxed superannuation benefits an individual can receive throughout their lifetime. Reasonable Benefits limits were abolished from 1 July 2007.

Retirement

The post "full time" work period where people who have received competent financial advice get the opportunity to enjoy their financial resources.

Rollover Fund

An investment in a deferred annuity, approved deposit, Retirement Savings Account, superannuation fund or immediate annuity.

Salary Sacrifice

An arrangement between an employer and employee which involves the employee substituting part of their pre-tax salary for an alternative benefit, such as increased superannuation contributions paid by their employer.

Super/Superannuation

Retirement savings. Australia has a very progressive superannuation regime which requires employers to contribute, a minimum of 9 per cent of an employee's pay into an appropriate complying superannuation fund. This money is to be used solely for retirement benefits and is protected by a range of stringent laws. Funds in super attract very favourable rates of taxation, making it an excellent vehicle for long-term saving.

Super Choice

The right of employees to determine which superannuation fund they contribute to. An employer must respect this choice, as well as provide their own default fund. An employee is permitted to change their fund once every 12 months, should they desire.

Superannuation Guarantee

Legislation which requires employers to provide a minimum level of superannuation contributions for most employees.

Superannuation Industry (Supervision) Act 1993 (SIS Act or SIS)

The Parliamentary Act, which includes prudential standards for superannuation funds. The Act commenced on 1 July 1994.

Superannuation Contributions Splitting

The ability to split certain superannuation contribution to an eligible spouse at the end of each financial year

Switching

The transfer of money from one investment option to another.

Transfer

Where a member wishes to transfer existing assets from one complying super fund to another.

Transition to Retirement

Workers reaching preservation age (currently 55) can begin tapping into their superannuation balance in the form of an income stream while continuing to work part-time or full-time.

Trust Deed

The document which sets out the rules for the establishment and operation of a superannuation fund.

Trustee

A person or company appointed under the terms of a superannuation fund's Trust Deed to hold trust fund assets for the members. The Trustee makes sure that the Fund is operated in accordance with the Trust Deed and all current and future legislative requirements.

how do i find a financial adviser?

The most common way of finding an adviser is by asking friends and family for a referral. If this doesn't work for you, I'd suggest you call the Financial Planning Association and ask for details of financial advisers near where you live – you can achieve the same by looking up their web site www.fpa.com.au

My suggestion is you arrange to meet three of the advisers for half an hour each so you can get a feel for whether you get on well together. Ideally, your adviser will have tertiary qualifications and at least 5-10 years experience in the industry.

Make sure you arrive prepared to see a potential adviser, know how much superannuation and other investments you have in total, think about what your retirement wants and needs are and also go with an open mind.

need more *information?*

We're happy to help if there's anything more you need. For further information on any aspect of superannuation funds, speak to us.

disclaimer

Theo Marinis and Financial Strategies (SA) Pty Ltd ABN 54 083 005 930, trading as Marinis Financial Group, ASIC Corporate Authorised Representative No: 235438 and Theo Marinis ASIC Authorised Representative No: 242123.

The information contained in this book may not be suitable to you because it contains general advice that has not been tailored to your personal circumstances, objectives, financial situation or needs. You should speak with a financial adviser before acting on this information.

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