Spice up your super nest egg

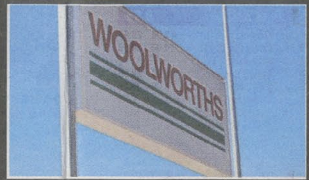
It's surprising how little people know of strategies to maximise their super's earning potential, writes **Anthony Keane**

THINK OUTSIDE THE SQUARE

- Super funds must always be invested with a view to providing for a member's retirement.
- However, it doesn't mean you can't be creative, but experts say any unusual investments should only be a small part of your portfolio.
- Always remember to seek professional advice, particularly with self-managed super funds (SMSFs).

ART

Artworks can be owned by a SMSF, but you are not allowed to hang them on the wall at home. They can be lent to a gallery or rented to a business or art bank.



YOUR FAVOURITE COMPANY

Whether it's Woolworths, JB Hi-Fi, Coca-Cola Amatil or any of the thousands of others listed on the stock exchange, they can be owned directly through shares via SMSFs or some retail super funds. Many funds offer ethical investment funds that avoid things such as tobacco and gambling stocks.

BUSINESS AND PROPERTY

Your own business can receive some money but generally a SMSF can only invest 5 per cent of fund assets in investments involving related parties. Owning your business premises is a much easier option. SMSFs can own a member's business real property, or even a farm, but rules apply.

CARS

Classic cars are similar to art and wine. While they can appreciate in value dramatically, you're not allowed to drive them. However, your SMSF can loan it to a museum.

> "What makes it super-sexy for me is what it really buys you

THEME PARKS

Theme parks and bowling alleys can be owned if you invest in shares in the listed Ardent Leisure Group, formerly Macquarie Leisure Trust, through your retail super fund or SMSF. Ardent's assets include Dreamworld and Whitewater World on the Gold Coast and AMF and Kingpin bowling alleys.

ASIAN FUNDS

Asian share funds are offered by many super providers and give investors exposure to the world's growth engine of the next century.

GOLD

Gold bullion is popular among investors at the moment. SMSFs can invest directly in gold bars or coins through the Perth Mint or listed securities on the stock exchange that track the precious metal's price.

WINE

Wine is like art. Your SMSF can own it but you can't drink it and it must be stored in a commercial, arms-length way.

Financial strategist and superannuation fan Theo Marinis. Picture: Grant Nowell

LET'S be honest. For most Australians, superannuation has about as much sex appeal as a brick.

It's seen as complex, confusing, the rules are constantly changing, and you can't touch it until you retire.

But there are ways to spice up your super and benefits that are definitely not dull.

Adelaide financial strategist Theo Marinis says super can be a great reward for a life's work and deliver huge tax savings.

"What makes it super-sexy for me is what it really buys you – dignity in your old age," Marinis says. "I find the thought of living on the single pension of $17,469 per annum – or $672 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 per cent a year on your super, to around $1000 per fortnight or $26,000 per annum – and still have much of your super nest egg intact."

Tax? What tax?

"It is important to remember that superannuation represents a highly tax-effective structure for investment," Marinis says.

"During the global financial crisis investments were hit but the tax effectiveness of superannuation remained."

These benefits include salary sacrifice, where income paid into super is taxed at 15 per cent rather than the marginal tax rate of up to 46.5 per cent.

Income earned within super is taxed at just 15 per cent rather than marginal rates and capital gains are taxed at just 10 per cent. Many people – particularly the self-employed – can claim tax deductions for pumping money into super.

It gets better when you reach age 60 and switch to the pension phase, where your super starts paying you an allocated pension – now known as an account-based pension. In this phase there is zero tax on income and capital gains.

This means that somebody who sets up a self-managed super fund and uses it to buy a $400,000 investment property will, after reaching age 60 and switching to the super pension phase, pay no tax on the sale of that property. If, however, the property was held outside of super and assuming it doubled in value before being sold, half the $400,000 capital gain would be added to their taxable income in the financial year it was sold, meaning a possible tax bill near $100,000.

Ord Minnett state manager Nick Ross says many people don't understand the benefits.

"As long as you're 60 and are in the pension phase, it's tax-free," he says.

"And you can get a franking credits rebate for shares." Dividends paid to super funds in the pension phase come with the bonus of a tax refund of the 30 per cent corporate tax rate paid by the company.

Spice it up

About 90 per cent of us stick with our fund's default option, typically a balanced fund with Australian and global shares, bonds, property, cash and perhaps some infrastructure.

That suits many people but others are ignoring the opportunity to spice up the investments they own in super.

Super funds can hold just about any asset but there are strict rules saying the assets cannot be for personal use.

Australian Stock Report head of research Steven Dooley says emerging markets are an area to watch in 2010 and can be invested in via managed funds or exchange-traded funds that are listed on the stock exchange.

"Emerging markets are looking quite hot because markets like China and India have been able to ride out the global financial crisis much better than the developed countries," he says.

"The appeal for these economies is high GDP growth and it is likely that they will outperform developed countries in 2010."

Dooley also likes small-cap stocks: "Given that the twin engines of the Australian markets, financials and resources, face an uncertain 2010 investors could do well by targeting some of those smaller gems. Of course, never buy a stock just because it's small or because of a dinner party tip . . . do your research and seek advice if necessary."

Other people's money

PKF partner Tony Simmons says gearing – or borrowing to invest – is a good way to increase long-term investment returns. It's more common among self-managed funds but many retail funds offer geared share funds where borrowed money is used for investing.

"There's a lot more knowledge about it now and the banks are across it better. There's a lot of fund managers that do geared portfolios but you have to be careful because they can magnify the losses and magnify the gains," Simmons says.

"If you work the risk out and can think it through, maybe gearing is something to consider," he says.

Business boost

A trend among the self-employed has been to put their business real estate into their self-managed super fund.

Macquarie Private Wealth associate director Michael Errey says this can be a good way to add spice to a portfolio.

"When you own your own business property you can save on tax; you also maintain control and can be your own landlord," Errey says.

As well as reduced tax while saving for retirement, there is also the nice prospect of no capital gains tax if the business premises is sold when the fund is in the pension phase, he says.

Free money

The Federal Government co-contribution scheme for low and middle income earners can double your money.

"These rules mean that a person earning under $30,000 per annum who contributes an extra $1000 to their super fund will find that the Government will match it," Marinis says.

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