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The Financial Planners Favourite – Superannuation!

Superannuation - is it still a good idea?

After the recent Global Financial Crisis many people I speak with are questioning whether it is still a good idea to put extra funds into superannuation or just stick with the basic 9% employer contributions made on their behalf.

If you have spare cash then the answer may well be yes you should! There is no better tax favoured environment in which to hold investments.

In giving advice to people in this area though we would discuss with them their personal circumstances and try to ascertain whether they may need access to these funds and indeed whether they can access the funds. If you are close to your preservation age then this may be less of an issue however if not, and you require access to these funds, then you would need to meet what is known as a condition of release and this may be a major concern.

Whilst super is fantastic from a tax effectiveness point of view it does have limitations in regards to accessibility. This in some ways is what makes it so successful as a retirement savings vehicle. The temptation to cash it in is not available unless we meet a condition of release.

If super suits, you then need to consider what type of contribution should it be? This is where a good adviser who understands and helps you to understand the different options is invaluable.

Many don't trust the government!

In discussions with clients though it is quite clear there are still many people who are very sceptical about superannuation.

There are a number of reasons for this scepticism, with many people that I speak with stating it is largely due to the government continually making changes. Historically they have made changes but they are also concerned about what could happen in the future too.

Quite simply they do not trust the government to not see the billions of dollars as another potential source of revenue. They also think the government will change the rules and make super less attractive.

Some of this scepticism is justified but most is completely unfounded and largely due to a lack of understanding of the real situation.

This is a real shame because if people understood the issues correctly they would understand there is no better environment to hold assets. I see many people holding assets outside of superannuation when quite clearly this puts them at a distinct disadvantage from a tax point of view. They could own exactly the same assets within a super fund and enjoy substantial lifelong tax benefits.

Let's address each of these points in turn:

1. When it comes to governments changing the rules this is always possible. Super is however the governments preferred retirement funding vehicle. They need to ensure it remains attractive, or quite simply people will not use it to fund their retirement. Logic suggests the tax treatment of this should always remain more favourable than other investment structures or privately held investments.
2. Changes made to superannuation are usually not retrospective. That is when changes are announced they usually say after a certain date the changes will apply. They regularly use grandfathering provisions so people are not disadvantaged.

There is absolutely no doubt super has always been and is still a good idea for most people. As with any investment it is important to make sure you get good advice as the wrong move can cost you dearly.

Transition to retirement – Many are missing out!!

I still speak with many people who are nearing 55 or who are over 55 and they are not aware of the Transition to Retirement Rules. Perhaps they feel they are not ready to retire and that it does not affect them.....but it does!!!

This is one of the most tax advantaged strategies available. If you are over 55 years of age and you have a reasonable amount of money in super (or the ability to put a reasonable amount in) you should be considering this.

You can save tax in many ways whilst still boosting your retirement savings.

For those that are not yet 55 careful consideration and planning should be undertaken to ensure they are in the best position to take advantage of these strategies, otherwise they will miss out on saving thousands in tax and possibly securing a comfortable lifestyle in retirement.

Let's revisit a case study I discussed on the radio some time ago.

Judy's story.....

Judy sold an investment some time ago and put the proceeds in her super fund and now has \$400,000 accumulated.

The best advice we can give many people is to sell investments they hold outside super and get the money into super while you still can!

She currently earns \$75,000 per annum, which equates to approximately \$57,375 after tax and Medicare Levy. She has paid her house off and has no dependants.

Even though she's reached the age of 55, Judy loves her work, so she's decided to continue working until she's at least 65.

What should Judy do?

Judy could roll her super account to a pre-retirement account based pension.

Within this account she would pay no tax at all, on any earnings the funds made. Super funds are normally taxed at a rate of 15%, so there is an immediate tax saving there.

She then elects to draw an income of \$40,000 from this source.

Judy will now pay no tax on this income at all as it is drawn from non-concessional contributions. That is contributions she made to super that have had tax paid on them already.

Judy then arranges for her employer to pay say \$40,000 into her super account as a salary sacrifice arrangement and receives the remaining \$35,000 as income.

The tax rate on the money paid into the super account will be limited to only 15%. This means Judy would pay less than 15% tax on average for all income she receives.

Tip: Make sure your employer will continue to pay your 9% super on your total package.

In addition to reducing the tax on her income dramatically, she pays no earnings tax on her pension account and is accumulating more money in super to assist her eventual retirement.

In this example Judy would also be entitled to an extra \$1,500 rebate for Mature Age Workers Tax Offset and Low Income Tax Offset.

So whilst maintaining at least the same level of take home pay (actually over \$14,000 more in this example) and in addition to the tax savings, it is estimated Judy will have accumulated a total super/pension account balance in excess of \$824,000 at age 65.

This works out to be over \$84,000 more than she would have if she did not undertake the strategy. That is a significant extra sum just by reorganizing and reducing the tax she pays.

So to sum up the benefits are:

Personal income tax saved each year \$6,600

More money is accumulated in super. In fact it is over \$84,000 extra.

No capital gains tax on assets in pension

No tax on earnings in pension

No income tax on pension income after 60

This may all sound too good to be true but it has been fully endorsed and sanctioned by both sides of parliament.

If you are over 55, have access to capital or have a reasonable amount of money in super and have not looked into this you are paying possibly thousands too much tax!!

Give us a call and we can help you to analyse free of charge whether you should look further into this.

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