PORTFOLIO

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DIY super is not the easy answer

We are living in times where anyone with a diversified portfolio of investments in a self-managed super fund must be feeling some concern. You have to be a pretty resilient individual to not be worried about this downturn, says Melbourne financial planner Julian Battistella of Battistella Financial Services, given it is increasingly being suggested that the 1930s was the last time so many people lost so much wealth in such a short time.

But the most-asked questions by DIYers still tend to relate to issues that might have arisen before the financial crisis.

''People still want to know the most effective way to move from saving super to taking a super pension, although some are asking whether they should be delaying this move given the current state of the world,'' says Graeme Colley, from fund administrator Super Concepts.

Prompted by the crisis, others who have already started taking a pension are asking whether they should stop their pension and convert their fund back to savings mode until financial markets settle down, especially if they have started a preretirement pension under the transition to retirement rules. Following are five of the most common questions asked by DIY fund trustees.

Should I stop drawing a pension and move back into savings mode?

No, is the strong answer from both Battistella and Nerida Cole of Dixon Advisory in Melbourne. Cole says that although many investors are worried about protecting capital in the current market conditions, there is a significant tax cost in moving back to a savings account. In an accumulation account you pay 15 per cent tax on investment income and 10 per cent on capital gains received, whereas in a pension account no tax is charged.

Even though capital values have declined, most super portfolios are still generating interest, distributions from managed funds, and dividends from shares. A full refund of franking credits from shares is not only tax effective but can also provide a valuable injection of cash into the fund.

Battistella says he wouldn't recommend anyone move from paying no tax on their retirement savings to voluntarily paying tax of up to 15 per cent again on their super investments.

He says it is misleading to suggest that rolling back to accumulation is a good strategy in the current market because it allows capital losses to be offset against capital gains. You have to remember that because no tax is paid on investment gains in the pension phase there is no value in going back to accumulation mode to offset a capital gain with a capital loss.

Battistella says that in a DIY fund, investments in a pension account will always outperform investments in an accumulation account.

Cole says members can help their portfolio by making minor changes to their pension payment arrangements. If you can afford to delay a pension payment, for example, by switching to an annual payment in June, this may give the fund time to accumulate sufficient dividends and income to pay the pension. This would avoid any need to sell investments if the fund does not have the cash to make the payment.

Savvy DIY trustees, says Super Concepts' Colley, generally have organised sufficient cash to pay up to two years of pension to specifically deal with times like the present. Anyone who can live without the pension income and who is eligible to contribute to super because they are under 75 and still working, could also recontribute the payment back into a separate accumulation account to help regenerate their capital.

Should I stop salary sacrificing into super?

Unfortunately those asking this question, says Dixon Advisory managing director Alan Dixon, are starting to associate superannuation with losing money. Salary sacrifice has lost none of its tax savings appeal because of the financial crisis, he says. The simple solution to not losing money on super contributions you have sacrificed is to keep them in cash.

SuperGuardian's Ed Bernard says people need to watch they don't exceed the concessional contribution limits of $50,000 if they are under 50 and $100,000 if they are over 50.

Pensioners should not despair in the current financial climate.

Photo: LOUISE KENNERLEY

I don't have a self-managed super fund. Should I set one up?

Most DIY super promoters are getting a steady stream of inquiries from people whose super funds have not done so well, says Colley.

There are reports that as the investment crisis has worsened, these inquiries have increased and that during October more than 10,000 new funds were established. It is a normal thing that happens during market conditions such as the present, says Colley.

Before going into DIY super, it is important to be aware of the advantages and the disadvantages of such a fund. Trustees must appreciate the investment responsibilities they are taking on and they must also understand their duties and obligations.

All new trustees of DIY funds or directors of funds that have a corporate trustee must sign a declaration within 21 days of setting up a fund that states they understand their duties as a trustee.

In October more than 10,000 new funds were established.

New trustees must also be aware that corporate regulators are becoming increasingly vigilant in their supervision of DIY funds.

My fund investments have fallen significantly in value. When do I qualify for a government age pension or other Centrelink benefits?

The first step is to pass the age tests of 65 for men and 63½ for women. The next step is to pass the income and assets tests, with the assets tests being the tougher one.

To be entitled to some age pension, a couple who own their own home can't have assets worth more that $873,500. A single home owner has an assets test limit of $550,000. This includes the value of any personal assets such as a car, furniture and other possessions, which are valued at realistic prices you could get for them if they were offered for sale. It is not their replacement or insurance value.

The asset limits for those who don't own their home is $675,000 for a single pension and $998,000 for a couple.

While the income test limit for a single age pensioner is about $40,500 a year and $67,650 for a couple, it is not based on income earned but rather a deemed income amount based on financial assets you own.

For a couple, for instance, the first $68,200 of financial assets is deemed to earn 3 per cent and the balance 5 per cent. For singles, the 3 per cent deeming rate applies to the first $41,000 of financial assets, with 5 per cent deemed to be earned by assets in excess of $41,000.

All retirees who qualify for some age pension get other benefits such as concessional pharmaceuticals, discounts on government and other services and special government payments such as the one-off economy stimulating payment.

For those who miss out on the age pension there is the commonwealth senior's health card, which entitles a single retiree with an annual income of less than $50,000 to concessional pharmaceuticals and other fringe benefits. For a couple, the income limit for these entitlements is $80,000. This income test doesn't include the tax-free super income introduced in July last year for the over 60s.

However, the Rudd government is proposing to make this test tougher from next July by including super and other income amounts in this test.

Should I invest in shares or should I sell before things get worse?

One thing that shares offer, says Greg Bryant of Dixon Advisory in Melbourne, is franking credits, which can be received as a cash payment, as tax refunds in the pension phase, or as offsets to contributions and earnings taxes during the accumulation phase with unused credits received as cash at the end of the year.

Dixon's Alex Madge says that many Australian companies are well placed to continue paying dividends, although there could be dividend cuts in property, infrastructure and certain industrial companies.

However, good franked income streams are still expected from the major banks, some industrials and well-operated resources companies. With franking added, dividend returns should still be more than 6 per cent in the future.

While falling markets, which could extend into next year, will continue to make people nervous, what is important to remember, says Battistella, is that investment in quality companies will survive the crisis.

What the current market is also highlighting is people's risk profile. Many people who invested aggressively during the bull market are discovering they are not as risk tolerant as they thought they were.

If you are asking questions about whether you should be selling out of shares, either significantly or partly, says Battistella, you need to think about adopting a more balanced approach to investing.