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RETIREMENT | Returns fall but law changes mean interest in funds is rising

It's still simply super

Super funds may be delivering negative returns but Australians' savings are still going one way, writes Money Editor **ANTHONY KEANE.**

NEGATIVE returns from investment markets have failed to stop the growing interest in superannuation since new laws came into effect in July last year.

Twelve months ago some of the biggest changes in the history of super came into force, most notably the fact that withdrawals from super by the vast majority of people aged over 60 are now tax-free.

Other big changes included abolishing reasonable benefits limits that heavily penalised people who had lots of money in super at retirement, imposing limits on contributions to super, and opening up the $1500 co-contribution scheme to self-employed people for the first time.

The change fuelled a flood of deposits into super in the lead-up to June 30, 2007, but many people have not benefited as much as they had hoped. With Australia's share market dropping 15.5 per cent in 2007-08 and most listed property and international share funds as bad or worse, most super funds are expected to deliver negative returns for the financial year just ended.

However, super experts say interest remains strong as people seek to take advantage of the tax benefits now on offer.

SUPER ON SHOW

SuperGuardian technical adviser Ed Bernard said his firm had seen a "significant increase in the number of people who have become interested in superannuation". He said an average 3600 new self-managed super funds were created each month last year, and the SMSF sector comprised 25 per cent of the total market in December last year.

At December 31 last year there was $1.18 trillion – or $1018 billion – sitting in super in Australia, and Rice Warner Actuaries has predicted it to grow to $3.2 trillion by 2022.

South Australia's biggest industry super fund, Statewide, says it is seeing more people in their 50s and 60s contribute to super and has seen a big rise in inquiries for its account-based pensions, previously known as allocated pensions.

"The advantage of this retirement product is that it enables retirees to roll their super, tax-free, into a pension product, creating an income stream that is tax-free after the age of 60," Statewide chief executive Frances Magill said.

"In fact, the number of people with an account-based pension with our fund has almost doubled since July 1 last year," she said.

Contrary to former treasurer Peter Costello's claim two years ago that people would no longer need financial planners because of the super changes, more people seem to be seeking professional help to get full benefit of the super laws.

SLAP ON WRIST

The cost of not knowing the rules can be more painful than before, with tax penalties of more than 90 per cent in some cases for people who pump too much into super.

"We have a lot more new super fund clients now," PKF partner Tony Simmons said.

Most of the interest was coming from people aged over 55, he said, because they were the ones likely to benefit most in the short-term.

"Leading up to retirement they think more about trying to get as many assets as they can into superannuation so they can take advantage of the changes.

"It has to be a staged retirement plan because contribution caps limit what you can do."

This is the biggest strategic challenge created by the new super environment. People can no longer put all of their non-super savings into super at the last minute because of the contribution limits.

However, the limits are still generous for the average pre-retiree, with $150,000 a year (or $450,000 in one year and nothing the following two years) allowed in non-concessional contributions, where a tax deduction is not claimed, and up to $100,000 – depending on your age – in concessional, or tax-deductible, contributions.

SuperGuardian's Mr Bernard said people needed to start their retirement planning sooner, particularly if they had earmarked assets to put into super just before retiring.

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He said one issue to consider was whether "lumpy" assets such as investment properties should be sold a few years before retirement so the proceeds could go into super over several years, within the contribution caps.

"There no longer is the ability to simply hold off contributing money to super just in case the money is needed in the meantime, and contributing unlimited amounts into super immediately prior to retirement, as happened in the past."

NEW TRICKS

The new rules have made some retirement saving strategies more popular in the past 12 months.

William Buck director of financial services Chris Kennedy said planning was "more important now than ever before".

He said one popular strategy was sacrificing more salary to super and using a transition to retirement pension to supplement the income they sacrificed. "This works best for those 60 and over," he said.

The strategy was allowed before July last year, but the benefits were beefed up significantly when tax-free withdrawals after age 60 came into effect. All earnings and income from the pension is tax-free while the income pumped into super is taxed at just 15 per cent – not the person's marginal tax rate.

Mr Bernard said a 60-year-old earning $100,000 a year could gain an annual tax saving of at least $14,000 by adopting the salary sacrifice/transition to retirement strategy.

Another popular strategy was couples allocating contributions to the spouse who was closer to 60, he said.

"The allocation of contributions to the older spouse is attractive because they will reach the age of 60 sooner, therefore be in a position to draw down their super benefits tax-free sooner and take advantage of strategies such as transition to retirement."

Mr Bernard said a popular estate planning strategy was recontribution, where money was withdrawn from super and then injected back in as a non-concessional contribution. This is because death benefits paid from super to adult children are taxable, except for the component made from non-concessional contributions.

Mr Bernard said self-employed people were taking advantage of the government's $1500 co-contribution scheme.

"This is a strategy we are seeing more of for the self-employed with net business income of less than $58,980," he said. "If your total income for co-contribution purposes is $28,980 or less, you may be eligible for the government to match a $1 after-tax contribution with $1.50, up to a maximum of $1000 matched by $1500. This reduces by 5c for every additional $1 earned and phases out at the income level of $58,980."

THE NEXT STEP

A potential dark cloud hanging over super's horizon is the Federal Government's coming review of the tax system, which could result in more changes to superannuation laws.

While some financial planners believe it will be political suicide to get rid of the new super rules, William Buck's Mr Kennedy does not believe they are here to stay.

"Tax savings are huge, so loss of income to government is also significant," he said.

"Labor has indicated it wants some parity across taxation in the super environment, but has not spelt out how this is to be achieved. Although in the 2008 Budget it was stated that the tax-free status of pensions and lump sums for peole over 60 would be maintained."

Mr Bernard said he did not expect drastic changes to the core super tax principles "as the Labor party supported the superannuation reforms when they were introduced by the former Liberal Government".

Statewide's Ms Magill said there was always talk of more changes, and it was difficult to predict the future.

"The past year has brought significant changes to superannuation and we hope that any further reform only serves as further encouragement to all Australians to save for their own retirement," she said.