Superannuation is safe

NOEL WHITTAKER

Retirees need not be worried about changes.

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HOW safe is my super? What do you think the government has in store for us? The person who asked these questions is an executive in his early 50s who is busily trying to get his finances in shape to retire at age 65.

For a person of his age I am not overly concerned. There have been non-stop changes to the superannuation system since it became universal more than 25 years ago, but there has been no element of retrospectivity. Yes, there are many voices now saying the system is too generous, but they tend to be focusing on those few people who have more than $5 million in super, and who are certainly not representative of the majority.

So what can we expect? The present government has promised no changes in their present term, but this has only a year to run at most. Opposition Leader Bill Shorten has already announced Labor's intention to increase the contribution tax to 30 per cent for people whose adjusted taxable incomes are in excess of $250,000 a year. This is not a huge leap from the present system, where the 30 per cent tax applies to people with incomes of over $300,000.

Under the present system, there is a 15 per cent tax on earnings from superannuation funds in the accumulation phase, but this reduces to zero once the fund enters pension mode. Under the Gillard government there was a proposal to tax the income of a pension fund once fund income exceeded $100,000 a year per member. This was a fairly mild proposal because the 15 per cent tax was only on the excess income over $100,000. But the predictable outcry ensued, and the proposal did not become law.

It is now Labor policy to reintroduce this tax, but they have made it tougher – it will apply once income exceeds $75,000 a year. Given the failure of the last attempt, the chances of this getting through must be considered slim, but even if it did, it's probable only a few who would be affected.

Think about a couple with $4 million in super, with a portfolio that is spread in a fairly conventional manner between cash of 30 per cent, local shares 35 per cent, international shares 25 per cent, and listed property 10 per cent. The income, including franking credits, would be about $73,000 each, which would still keep it under the threshold for Labor's new tax. I suspect when they start doing the numbers, they will realise it's not worth the pain.

The Association of Superannuation Funds of Australia (ASFA) has put out a proposal that money in pension phase be capped at $2.5 million per member. It might be easy in theory, but devilishly difficult in practice. Is the intention to take the balance at June 30 and simply switch the excess, if any, to accumulation mode? If the market has a sudden fall or rise, or if there is a big withdrawal, do you have to go through the whole process again?

But once again we're talking about balances of $5 million and over, which won't worry mums and dads.

Emails arrive continually from people who are concerned that the government will change the rules to prevent withdrawal of lump sums. I do think at some stage in the future the government of the day might decide to compel retirees to take part of their superannuation as an income stream, but that may be a long way off. It would be a brave government that compels retirees to lock up part of their retirement funds in an annuity when interest rates are at historic lows.

Yes, more change is inevitable. But in my view the biggest risk for most retirees is an over-emphasis on cash in their portfolio because they are averse to risk. Many retirees can now expect to live 25 years or more after they retire. For them, holding money in cash may be one of the riskiest strategies of all.

Q The increase in value of my apartment will produce a pro rata capital gain on its sale, as it was initially an investment property. I gather from previous columns that holding costs for the whole ownership period can be deducted from the profit prior to the pro rata calculation of capital gain. Do you think this unexpected largesse of the ATO might extend to water rates? The unit block has one water meter, and the usage charges are divided equally between apartments before charges are applied. This appears to have some characteristics of a holding cost.

A Yes providing the expenses have not otherwise been claimed as a tax deduction ie against the rent. The relevant section is 110-25(4) of ITAA 1997 – it is very wide, including repairs and maintenance so could also include cleaning materials and light globes.

Q I'm 24, single, working full time in a graduate job. I have $88,000 in savings, no debt and no HECS. Where should I park my capital? The sharemarket seems to be taking a slide and the prospect of taking on significant debt with home mortgage is daunting. Is the best investment a bank account?

A I certainly think cash is the best place for short-term. Bear in mind if you invest in shares, you should have a 10-year timeframe in mind.

Noel Whittaker is the author of *Making Money Made Simple*, and numerous other books on personal finance. His advice is general in nature and readers should seek their own professional advice before making any financial decisions. Email: noelwhit@gmail.com.

From go to whoa: five ages of financial security

DOMINIQUE BERGEL-GRANT

Feeling rich means having different priorities for each decade.

WE often get caught up in watching and commenting on other people's financial successes – or even failures. Having worked with clients for 15 years, the one thing I know is that you never know what is under the hood.

Time and again, I see people who look financially "happy", but spend the nights worrying about how they will pay their next bill. What is on the surface is often just a mask to impress family, friends and peers.

Those who I see who are really happy and secure about their money seem to have lost the fear about what their future holds. So what is the magic dollar number that is making these people happy?

For a 28-year-old, it is getting onto the property ladder, not just scraping in, but having built up 30 per cent equity in the property so they are ready to jump and make the next investment.

For a couple starting a family, it is knowing there is plenty of money set aside in their mortgage offset account to cover the loss of income while one or both of them take time off with the baby – while still knowing that their superannuation balances and home are growing in value.

In your early 40s, happiness often comes down to being able to provide the education and home you want for your children. It requires a clear understanding of what your cashflow looks like from week to week and year to year. This is the time when use of your spare cashflow and equity is key. These are the years that leveraging can secure your financial future.

By the time you are in your early 50s, the focus changes to the harsh reality of looming retirement. Especially for executives, the risk of losing their role due to a redundancy becomes very real and having the financial security to know you can afford to stop work at any point is critical.

When you reach retirement, what is the magic number? A lot of statistics are thrown around. A common example is being able to retire on two-thirds of your salary, or $1 million. However, this often falls well short. The simple reality is that those I see most successful and happy in retirement have a portfolio both inside and outside superannuation.

They have a share portfolio that provides them with liquidity and two investment properties providing regular income. Most importantly, their home is paid off.

Building to this is something that needs to start early. It is the foundations you build in your 20s, 30s and 40s, the financial plans and frameworks you establish early, that will determine future financial failure or success.

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