BUSINESS

Each week, financial adviser and international bestselling author Noel Whittaker answers your questions.
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Ask Noel

Noel Whittaker

RECENTLY you stated that withdrawals from superannuation are not taxable nor are they treated as income for Centrelink purposes. My understanding was that Centrelink does regard lump sum withdrawals from superannuation as income for the purpose of age pensions. I am 66 and on an age pension. I have both an accumulation fund and a transition to retirement fund with Unisuper and wish to withdraw a significant amount from both to pay credit card and mortgage debt but have been reluctant to do so due to anecdotal advice that my pension would be affected.

Capital withdrawals from superannuation are not income for Centrelink purposes. But, the capital withdrawal may affect a person's income support payments depending on how they use the withdrawn capital. For example, using the capital withdrawal to pay off a credit card would reduce assessable assets and may result in greater pension payments. If the capital withdrawal is from a grandfathered account-based income stream the withdrawal would reduce the deductible amount, as well as the value of the assessable asset.

I am 60 and have not been in paid employment for many years. Over the past 10 years, since all my income is from investments, I have been able to make tax-deductible super contributions to my self-managed super fund. I am wondering, given my long term non-employment status, how I can satisfy a condition of release to access my super without returning to the workforce? Or do I just have to wait until I'm 65?

Once a person has reached 60 they can satisfy a condition of release by resigning from a job, it need not be their main job, or by advising their fund that they have retired permanently. In your case the second option would be the appropriate one.

Much is talked about on superannuation as you get older but should teenagers who work part-time start contributing to a superannuation fund straight away or wait until they have finished university or have their first full-time job?

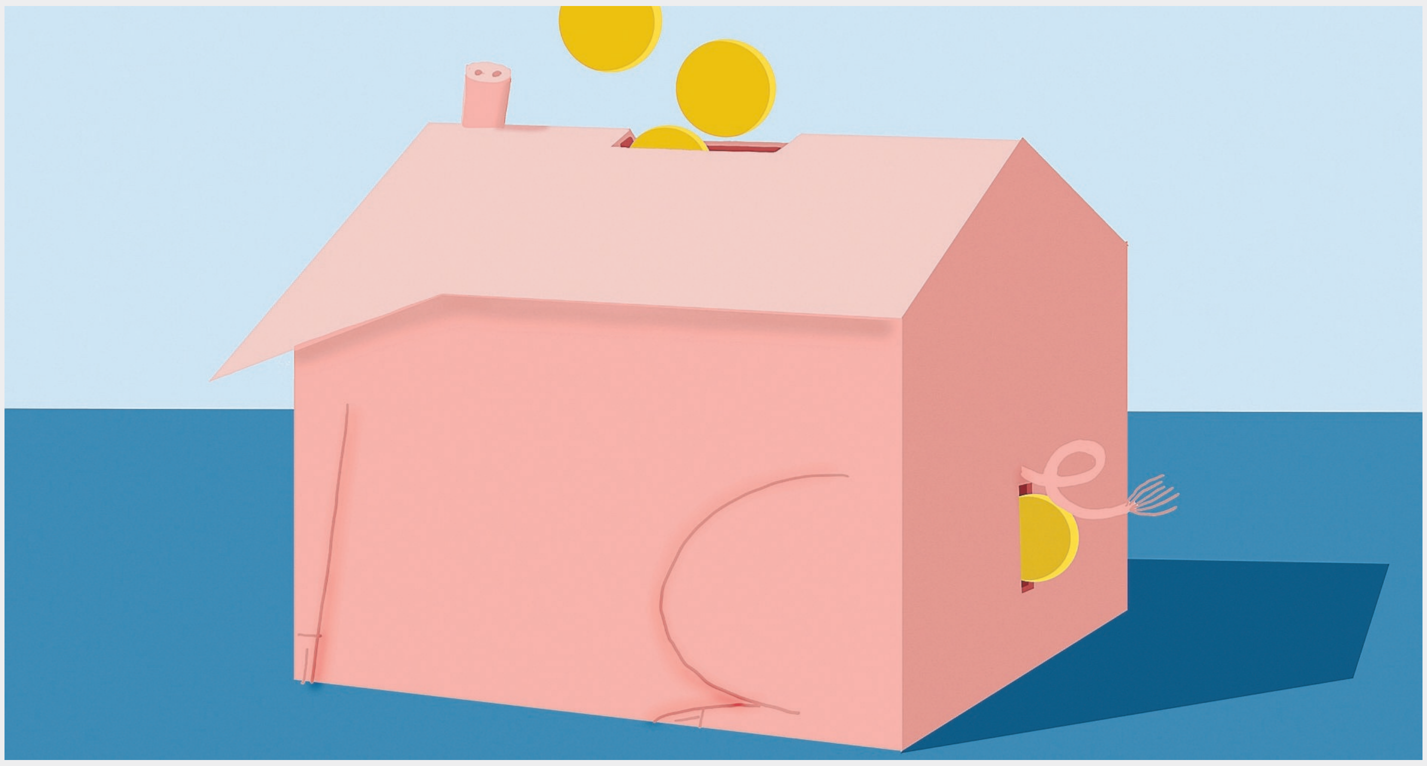
Given it will be at least 40 years before a teenager can access their superannuation, and many more rule changes are highly likely, it is my recommendation that teenagers invest outside the superannuation system, and focus their attention on developing good money management skills. If they do this, they should accumulate enough wealth in their lifetime that any employer superannuation is a bonus.

I am almost 16 and earn $210 a week on average as a casual retail worker, being paid superannuation as well. Would it be worth salary sacrificing $500 a year into my super?

The problem is that salary-sacrificed contributions lose 15 per cent contributions tax, whereas *your* income loses zero. A better option would be to simply make a $500 non-concessional contribution. This will also make you eligible for a government co-contribution of $250. The result is that you would have $750 working for you instead of $500 less 15 per cent.

My son has left Australia for overseas and has taken up permanent residence abroad. We don't ever expect to see him back in Australia. He has a superannuation account here from his former working days. Although he is nowhere near retirement age, can he close the account and take his money overseas? Otherwise, it will just sit and waste away in an account here over the years.

The current regulations prevent him taking his money out but there is no need to let it "waste away". Talk to a good adviser about a superannuation fund that has a good choice of assets, and fits his goals and his risk profile. If he is young it should be growth oriented.



How much can I save for a home?

The Explainer

I refer to the new first-home super saver scheme. Are the contributions subject to the cap on concessional contributions that will drop to $25,000 a year from July 1? I have been told that they are counted within the cap, but that does not seem logical.

Yes, they do count within the concessional cap and I agree that this does not seem logical. After all, the purpose of the caps on contributions is to prevent people building up large sums in the low-tax superannuation environment, while the stated aim of the new scheme is to encourage first-home buyers to save money that can be withdrawn as soon as practicable for a deposit on their home. Furthermore, the total contributions that can be made to the scheme are $30,000 and they are subject to a 15 per cent tax on entry and earnings, while withdrawals are taxed at the individual's marginal rate with a rebate of 30 percentage points (ie. someone on a 37 per cent marginal rate would pay 7 per cent on withdrawal). Maybe the purpose of making the contributions count for the cap is to reduce eligibility for higher income earners.

Super funds on track for healthier returns than expected

Super & Funds

John Collett

DOUBLE-digit returns for super funds remain on the cards this financial year, despite global sharemarkets likely to be negative over May.

It's likely to be a stronger performance than many were expecting so far this financial year with positive returns for eight of 10 months for which there are returns so far.

Figures from superannuation researcher Chant West show a median return of 10.1 per cent for the 10 months of the financial year to April 30.

The return is for "growth" investment options. They have between 61 and 80 per cent of the money in growth assets, such as shares and property, and are the category of investment option that most people have their money in.

Chant West director Warren Chant says it is "almost certain that they'll finish the year in the black for the eighth consecutive time – and quite possibly in the double digits".

He says the federal budget has been well received, despite some contentious measures like the levy on the five major banks.

Chant says the Reserve Bank keeping interest rates at a record low is good for investment markets, noting the Reserve Bank cited an improving global economy as one of the reasons for keeping rates on hold.

The Reserve Bank appears to have had two potential drivers for either lifting or lowering rates that cancelled each other out.

While there are early signs that heat is starting to come out of the Sydney and Melbourne property markets, the Reserve Bank will not have wanted to lower the cash rate and risk refuelling the price boom.

On the other hand, weak wages growth and low inflation are arguments against a rate rise.

Retail funds, those run by the banks and insurers, edged out not-for-profit industry funds in April, returning 1.6 per cent versus 1.4 per cent for industry funds.

Of course, it's the returns over the long term that matter.

Industry funds continue to outpace their retail rivals over the longer term with an annual average compound return of 5.4 per cent a year against 4.6 per cent for retail funds over the 10 years to April 30, 2017.

As I have written before, this comparison is going to become less relevant to more people over time.

That's because most of the retail super funds have switched their "default" members, those who don't make a choice of who runs their super, to a "lifestage" option.

Anyone born in the 1970s will be grouped with others born in the '70s and those in the '80s and so on.

They decrease the investment risk, every so often, as the fund members age.

Standard balanced options, which are the default options of almost all industry funds, have a fairly static asset allocation that is the same for everyone in the investment option. Their returns are easy to compare.

As the asset allocations of lifestage options are dynamic, I can't see how it can be known if these options are any good.

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