WINTER 2021

WEALTH & SUPER MATTERS

Superannuation strategies and your personal guide to wealth creation

IN THIS ISSUE:

- Corporate Versus Individual Trusts
- Addressing The Super Gender Gap
- Who Is Left To Lend To SMSFs?
- The Amazing Power Of Compound Interest

Accountancy Services

Downsizer Contributions into your SMSF

As of 1 July 2018, people aged 65 years or older are able to make downsizer contributions into their superannuation fund of up to $300,000 from the proceeds of selling their main residence, as long as certain eligibility requirements are met. In the recently announced Federal Budget, the government has announced that the age to make downsizer contributions will be reduced from 65 to 60. This will not come into effect however until the legislation has been passed.

If you make a downsizer contribution to your Self Managed Superannuation Fund ('SMSF'), you will need to provide sufficient evidence to your Fund's auditor that it was a contribution that was made properly and in line with what is required. The auditor will expect to see:

- Proof that **the member is aged 65 years or older at the time the contribution was made** (if the budget announcement is passed into law, this age requirement may be reduced to 60 or older)
- That a tax file number (TFN) for the member has been provided
- That the SMSF trust deed allows the fund to accept a downsizer contribution
- An **approved downsizer contribution into super form (NAT75073) from the member** (if you are making your contribution to a fund that is not an SMSF, you may be able to use the Fund's own form)
- **Evidence the contribution was made either at the same time or after the form was received by the fund**, and that the contribution does not exceed the $300,000 cap per member
- The member has not previously made downsizer contributions to the fund from a previous sale of a property
- The contribution was made within 90 days of receiving the proceeds
- The contribution has been correctly allocated to the member's account.

If you are currently aged between 60 and 65 years old and are in a position where you may wish to take advantage of a downsizer contribution, the recent Budget announcement to reduce the age to 60 should be taken into consideration when making the decision as to when you sell your property. Contributions must be made within 90 days of selling your property, so you do not want to be in a position where you just miss that cutoff because you sold before the new age limit came into play.

Downsizer contributions can also be made in conjunction with other contributions.

If the funds available are sufficient, a couple may be able to contribute as much as $1.2 million into their super fund in one go after selling their main residence (or another property that has been their main residence).

If you are over 60 and intend to sell a property in the near future, or have recently sold a property, it is important that you speak with us so that we can determine your options when it comes to contributions.

We will ensure that the required information is correctly provided to the Fund's auditor and that your deed is up to date.

ACCOUNTANCY SERVICES

966 DAVID LOW WAY,
MARCOOLA QLD 4564
AUSTRALIA

33 MARY STREET,
NOOSAVILLE QLD 4566

1/17 WEST STREET, MT
ISA QLD 4825

EMAIL
mailbox@accountancyservices.com.au

WEBSITE
www.AccountancyServices.com.au

TEL (07) 5448 8600

PRINCIPAL
Michael Beard

Personal & Business
BAS/GST
Bookkeeping
SMSF
QBCC

The Amazing Power Of Compound Interest

If you were to ask a 25-year-old where their superannuation is invested, at least half of them would have no clue. They probably would not be able to tell you what fund it is in. If they do know the actual fund, try asking them about the portfolio they have within their fund. It is likely by now that you will find at least three-quarters of 25-year-olds have little to no engagement with their superannuation whatsoever. It is understandable though as it is money that they are not able to touch until they are 60 and are likely to be 65 or older by the time that they retire. Why worry about it now?

It is because now is the most important time for them to worry about their super – and the reason behind that is because of the impact of compound interest.

Take as an example Melissa, a 25-year-old that has $20,000 in her superannuation. The default product that she is invested in is the balanced product, but she also has options to choose more conservative or more aggressive portfolios.

The money will still be in her super fund for another 40 years. How important is a small increase in the rate of return to what she already has in her super?

$20,000 invested for 40 years at a rate of return of 5% will equal $140,899.80 in 40 years. At an inflation rate of 2% that is the equivalent of $63,767 in today's money. It is still a good result, but how could it be made better? Investing $20,000 for 40 years at 7% would net $299,489 or $135,636 in today's money. That is almost double the money that had been initially invested.

Now is a crucial time for everyone, young and old, to consider their superannuation portfolio to ensure that they are always receiving the best return possible. It will be far too late to do so when they hit retirement age after all.

Who Is Left To Lend To SMSFs?

Borrowing to buy a property in your Self-Managed Super Fund is a relatively new and exciting wealth creation strategy. Though it is not suited for everyone, those that are suited to it should seriously consider the option.

When the law first changed to allow SMSFs to borrow, only a few specialist lenders went into the market. The four major banks took several years to follow suit, and only three of them had a publicly offered product with the fourth doing loans only for "special clients".

Recently the major banks have completely pulled out of lending to SMSFs to buy property, leaving only a few of the smaller banks or non-bank lenders to do so. Some specialists focus primarily on lending to SMSFs.

Another option to borrowing directly from a financial institution is that you yourself can lend the money to your SMSF. In many instances, this is the best course of action. Even if you do not have the funds easily at hand, you can borrow against your own home and lend the money to your SMSF.

If you already have an SMSF loan or are thinking about obtaining one, contact a reputable broker with experience in SMSF loans to ensure the best product is selected for your needs.

Corporate Versus Individual Trustee

If you have a Self Managed Superannuation Fund ('SMSF'), the Fund is considered to be a trust and must therefore have a trustee. There are two options as to who the trustee can be.

Barring a few exceptions, it can be the members individually or alternatively can be a company with the members as the directors and shareholders of the company. The choice, either way, is that the trustee of an SMSF can be either individual trustees or a company as a trustee.

When choosing the appropriate trustee structure for your SMSF, a closer examination of the advantages and disadvantages will assist you in determining what is right for your needs.

Looking at the cost, a company as a trustee could cost around $1,000 or more to establish initially. An annual fee of roughly $50 will also need to be paid to ASIC, and when you are finished with the company, there will also be costs associated with deregistering it. Using individual trustees, there is no initial cost associated.

But price is about where it ends in terms of the advantages of using individuals over companies as trustees. While price-wise, it may seem advantageous at first glance, companies as trustees possess more benefits over individual trustees.

First, and most importantly, you have asset separation. The assets are held in the name of a separate entity and if the individuals are ever attacked financially there is nothing to point towards the super fund. Even though the assets of the fund should be protected even with individual trustees, if assets are in the individual names you will need to spend legal fees to prove they are fund assets.

If the members of the fund are changed, you will need to change the trustees, and if you change the trustees, you need to change the ownership of all the assets. This will be a major administrative burden, as a lawyer will need to be engaged to do the necessary documentation to change the trustees, and is required to be engaged if real estate is involved. In most instances, simply changing trustees and ownership of the assets will end up costing far more in the long run than the initial investment costs of setting up a corporate trustee.

People always make mistakes, but with SMSFs, mistakes can create breaches of the law. If you have all of the assets in a special purpose company name, there is less chance that you will make the mistake of thinking that a particular fund asset (such as a bank account) will be your own asset. If you take money from the super fund account by mistake, thinking that it is your own money, the auditor may report a breach. If you deposit money into your SMSF account, which is actually yours and not the fund's, you may not be able to take that money back out if the mistake isn't realised in time.

Do you already own a company, and after reading this article, are asking yourself if you can use that to set up a corporate trustee? It is only recommended that you do so if the company is not operating in any other capacity but yes, doing so can save on the initial set-up costs.

There is no one size fits all advice we can give you, but we can try to determine what would best suit your needs. We may sit down with you and agree that individual trustees may be appropriate, but if our recommendation is for a corporate trustee, it is for sound financial reasoning.

Addressing the Super Gender Gap

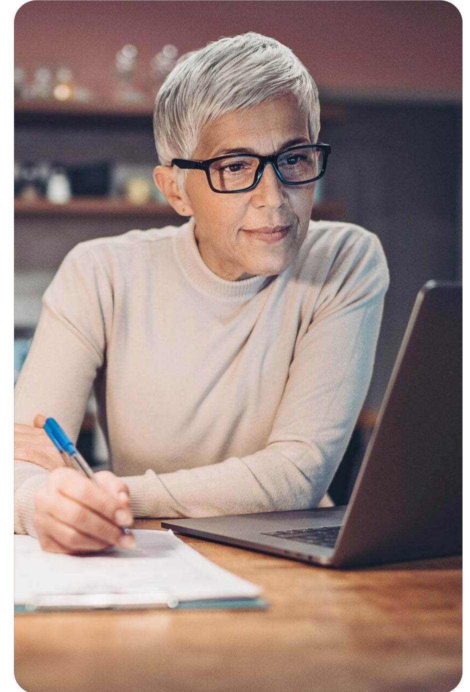
According to the Australian Bureau of Statistics, in 2017-18 the median superannuation balance for women aged 55-64 was $119,000 compared to a median balance of $183,000 for men of the same age. There is a gender gap in superannuation that the government is aware of.

In the recent Budget, the government announced changes to superannuation guarantee payment rules to begin to help address this superannuation gender gap.

Currently, if you work part-time and earn less than $450 per month, your employer does not have to pay super on your earnings, nor do they have to increase your earnings by that amount. Women are considered more likely to be employed in part-time/casual roles affected by this rule, and as such, the rule impacts women's super more so than men.

Presuming that the Budget announcement passes through parliament, from the 1st of July 2022, employers will have to pay superannuation guarantee payments for all employees regardless of the amount earned by that employee in any particular month.

This will be an extra cost on employers, and especiallythose who focus on employing low hour casuals (e.g. high school students), but should also help address the superannuation gap.



Do You Have ATO-Held Super?

As of 30 June 2020, $13.8 billion was held by the Australian Taxation Office (ATO) as lost or unclaimed superannuation in accounts across Australia. Could some of that be yours?

ATO-held super refers to the money in super that the ATO holds for you. This includes amounts paid by employers, super funds, retirement savings accounts (RSA) providers or the government on your behalf.

Generally, super money will be transferred to the ATO from super providers for any of the following:

- unclaimed super for members aged 65 years or older, non-member spouses and deceased members
- small lost member accounts and insoluble lost member accounts
- inactive low-balance accounts
- super for temporary residents who have left Australia for six months or more
- accounts held in eligible rollover funds that are transferred to us before they wind up
- amounts your fund transferred to us on a voluntary basis when it determined this was in your best interest.

If the ATO holds your super, you can consolidate or claim it from them once you've met certain conditions.

To find out if you have ATO-held super, you can use the ATO's online services for individuals. You will need a myGov account linked to the ATO.

Once you have linked the ATO to your MyGov account, you will need to select "Super" to see if you currently have any unclaimed super and will then be able to nominate a super account for your balance to be transferred to.

How Much Do I Need To Retire On?

From a financial point of view, the most important question to ask when planning for retirement is "how much money do I need to retire on". Here are the points that need to be considered when making a retirement plan.

1. **How long does the money need to last?** A person who is going to retire at 80 will certainly not need as much money as would be needed if retiring at 50. It is usual to not know how long exactly the money will be needed until, but it is easier to predict with a projected timeline. For example: If you retired at 65, and expect to need money until you are 90, your money needs to last for 25 years.

2. **How much money should be left over when I die?** Some people may want to make sure that they have as much money left over when they die to leave their kids, as they had when they retired. Others may be happy for their children to have the house, and there are those who may believe their children to have been well setup during their lives and therefore do not need anything extra. It is important to know that if money is to be left over to leave to anyone, it means that there will need to be more money to start with at retirement.

3. **How much money is needed to live on?** Though they may be happy to live on less money when they retire, often people start spending more than they ever did because they are no longer headed to work every day. From a planning perspective, start with a number that is the same as what is needed to spend in the current lifestyle. Filling out a detailed budget questionnaire can help with this, but most people often underestimate how much they spend. Often it is best to simply look at what is earned now, take away how much is used to pay off debts or save and what is left from that is what can be spent.

4. **What rate of return will the money get?** Upon retirement, we might like to think that our money has been put into a risk-free environment so that capital cannot be lost, and that makes sense. However risk-free investments pay the lowest rate of return, and as such, will require a lot more capital to fund retirement. For example, with current deposit rates situated at around 2%, $2.5 million would need to be invested to receive $50,000 per annum in interest. However, if there was a share portfolio giving a return of 7%, then only $714,000 would need to be invested to return that same amount per annum. Of course, shares come with a degree of risk, but how much risk are you willing to take?

After considering all the above information, it is possible to mathematically calculate how much capital will be required to pay a particular income for a specific period, and with just how much to have left over to leave as the inheritance.

What If I Cannot Reach My Retirement Savings Goal?

Often when people work with an adviser to find out how much they need to fund their retirement, they work out that they may not be able to get to where they need to be.

They might determine, for instance, that they need $1.6 million but with their current savings strategy be only able to reach $1.2 million. In this case, there is no magic bullet for figuring out a compromise (other than winning the lottery).

In the previous article, we discussed how long money needs to last, how much to spend, how much to leave the kids and how much risk to take with your money. By compromising on one or more of these aspects, obtaining those retirement goals will get a little closer.

For example, a person may decide to work for three more years. This has a double benefit – their savings grows for three more years, but they only need their money to last three fewer years, which can have a big impact on their retirement.

More risks may be taken where instead of investing all their money in term deposits, part of their portfolio can be put into riskier assets. This would therefore give a higher expected long-term rate of return.

It might also be worth accepting that the inheritance may not be as large as previously planned.

Finally, if all these compromises have been attempted in some way, it might be worth considering spending less.

It is very important to speak to someone to help ascertain where you are regarding meeting your retirement goals. We are always willing and ready to help you on your savings journey.

This publication is for guidance only, and professional advice should be obtained before acting on any information contained herein. Neither the publishers nor the distributors can accept any responsibility for loss occasioned to any person as a result of action taken or refrained from in consequence of the contents of this publication. Publication date June 2021