

Managing your super to suit you

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It would be easy to think that superannuation is a complicated, messy beast, however with simple explanations of how different aspects work, you soon realise that it's not quite that bad.

This article examines a few key features of the current superannuation system including; difference between the accumulation and pension stages, asset protection benefits for business owners and a comparison of two different types of superannuation vehicles.

Accumulation stage of Superannuation

Through most of your working life you will have been accumulating super. You or your employer will be paying tax-deductible superannuation contributions into your account. Add to that the non tax-deductible contributions made by you and your spouse and possibly the Government (through co-contributions). Your superannuation is in the 'accumulation' phase and it will be invested to grow and form your "nest egg" when you retire.

In the accumulation phase, contributions made by your employer will be taxed at

15%. If you are self-employed and claim a tax deduction for your contributions, these will also be taxed at 15%. The investment earnings on money in your fund will be taxed at 15%. These taxes are much less than would be paid outside super where tax rates can be up to 46.5%.

Pension stage of Superannuation

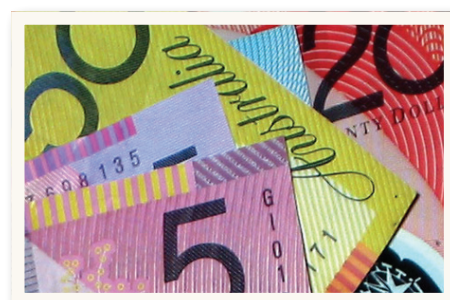
Your superannuation can be converted into a pension account when you retire, or begin to draw regular income from your super fund (which is now allowable from age 55, even if you are still working). Government regulations require you to take a minimum amount of pension income each year and may set a maximum level as well – depending on the type of pension involved. In a pension account investments earnings are tax-free.

You can have an accumulation account and a pension account at the same time. Once you start a pension you cannot add money to that account but you can start another accumulation account if you wish. You can have more than one pension account and you can 'roll' a pension account back into an accumulation account at any time.

This flexibility – if used wisely - provides a real opportunity to substantially build wealth for your retirement.

Asset Protection for Business Owners

Running a business provides an opportunity to control your own destiny and be directly rewarded for your efforts. It also means accepting the risk that something may go wrong. One of your major customers could collapse leaving invoices unpaid or a dissatisfied customer may sue you. You may arrange ownership of your personal assets through trusts or in the name of other family members so you don't lose everything if things go wrong.



In the past, superannuation was protected from the claims of creditors up to the pension reasonable benefits limit (RBL - about \$1.3 million in 2006-07). However, since RBLs were abolished from July 2007, a review of the Bankruptcy Act with regard to superannuation was required.

The revised Bankruptcy Act sets no limit on the amount of money that can be held in superannuation and be protected from the claims of creditors. However the courts will be able to treat superannuation like other financial structures and recover assets where they have been invested or moved with the intent of defeating creditors.

As far as superannuation is concerned the courts will examine the normal pattern of contributions you made to super. They will be able to reverse abnormal contributions made after 28 July 2006, for example, large contributions made when it becomes obvious your business is in financial trouble.

The Simpler Super legislation encourages all Australians to invest regularly over their working life. For small business owners protecting your assets in superannuation is a powerful reason to make regular contributions.

Self Managed Superannuation Vs Public Offer Funds

Self Managed Superannuation Funds (SMSF) have become increasingly popular in

Issue	SMSF	Public Offer Funds
Trusteeship	You are the trustee and must take responsibility for the running of the fund. You can be fined or jailed if you break the rules.	A professional trustee takes responsibility for the operation of the Fund. You can sue the trustees if they break the rules.
Investments assets	You can invest in whatever assets you wish within the constraints set by super legislation. This includes direct commercial property eg. Your business premises.	You choose from the range of investments offered by the trustee. Depending on the type of Fund, this may include both professional fund managers and direct shares, cash and term deposits.
Account balance	You need to have a significant amount in super to make it worthwhile.	There are usually no limits.
Costs	You may save on fees because you are "doing-it-yourself".	There will be a set fee formula usually depending on the investment options you select. Funds with greater investment choice will generally have higher fees.
Record keeping	You are responsible for ensuring the fund records are kept accurately.	The trustee will appoint an administrator to maintain fund records.
Auditing, tax and annual returns	You are responsible for ensuring the fund is audited and annual returns are lodged.	The trustee is responsible for ensuring the fund is audited and annual returns are lodged.

recent years. With ever-increasing amounts in their super funds, more members are taking a greater interest in what's happening to their money. The move to self-managing super has developed further since Super Choice was introduced in July 2005 when employees, who previously did not have the option available to them, decided to establish their own funds.

There are several reasons for this change. Above all is the desire for members to have control over their own money and choice of specific investments. Where large account balances are concerned there may be some reduction in costs but this is not generally significant.

A SMSF suits some people whereas having their super in a public offer fund (eg.

Industry or Retail Fund) is a better solution for others. The above compares some of the pros and cons.

Generally it is considered that a SMSF should only be established with a minimum of \$250,000 or when such a balance is expected in the short term. Most people who set up a SMSF have a significant fund balance, are organised, knowledgeable about investments and want to choose investment assets and save costs. In many instances, they may also wish to include their business premises as a core investment of the Fund. For others, public offer funds meets all their needs.

One of the key roles of a financial adviser is to work out a suitable superannuation

strategy for you based on the above factors and your personal views and objectives.

The aim is to ensure that you have an appropriate strategy that not only best suits your situation, but also one that allows you to sleep soundly at night. ■

Important Information: This information does not take into account the objectives, financial situation or needs of any person. Before making an investment decision, you should consider, with the assistance of a financial adviser, whether it is appropriate in light of your particular objectives, financial situation and needs.

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