



## Super sense: avoid common mistakes

Doing the right thing for your superannuation also means knowing what not to do.

If you already have salary sacrifice arrangements and have consolidated your super, plus understand spouse splitting and the government's co-contribution scheme, you're certainly managing your super actively, but that's not all there is to being super savvy.

It's also important to consider potential super pitfalls, as it can be easy to get caught out if you are not aware of specific rules or restrictions. Understanding some of the finer details of super can help you to make the most of your financial future.

### Contribution caps

Contribution caps limit how much may be contributed to an individual's super in a financial year without the member incurring excessive contributions tax. They are designed to prevent people taking unfair advantage of super's preferential tax treatment while at the same time, encouraging those who need it most to contribute to their super.

Making contributions to your super is one of the most tax effective ways of building financial security for your future, but exceeding the caps can be a costly mistake. Contributions over the limits are taxed at the maximum marginal rate of 46.5%. Even if you exceed the caps by making a genuine error, you will still have to pay the higher rate of tax on the excess contribution. Currently, there is little recourse for reversing this outcome. If you think this can't happen to you, remember that 65,000 people breached their concessional cap in the 2009-10 financial year, up from 28,000 people the previous year.<sup>1</sup>

<sup>1</sup> Commonwealth of Australia, *Parliamentary Debates, Questions on Notice, Superannuation (Question No 367)*, Senate, 3 March 2011, (Senator Nick Sherry, Minister representing the Assistant Treasurer, The Hon Bill Shorten MP), Hansard (Proof), pp 102-6, viewed 11 March 2011.

Always keep records of your super contributions and inform your financial adviser and tax adviser so that you don't risk exceeding the caps.

There are caps for both concessional (pre-tax) contributions and non-concessional (after-tax) contributions:

- **Concessional contributions** include employer contributions (superannuation guarantee amounts) as well as any salary sacrifice arrangements and personal contributions claimed as a tax deduction by self-employed people.
- **Non-concessional contributions** are after-tax contributions and may also include excess concessional contributions, excess Capital Gains Tax (CGT) contributions (ie in excess of the superannuation CGT cap), and spouse contributions.

Income year	Concessional cap		Non-concessional cap
	If you are <b>under 50</b> on last day of financial year	If you are <b>aged 50 or over</b> on last day of financial year	
2010–11	\$25,000 (indexed)	\$50,000*	\$150,000**
2011–12	\$25,000 (indexed)	\$50,000*	\$150,000**

\* This is a transitional cap (un-indexed) that applies until 30 June 2012 and commences in the financial year you turn 50. From 1 July 2012, the concessional cap will be \$25,000 (indexed) for taxpayers of all ages. However, the government has released a discussion paper about permanently increasing the concessional cap to \$50,000 per income year for individuals aged 50 or over who have super balances below \$500,000 from 1 July 2012. At the time of writing, legislation to make this effective has not been introduced to Parliament.<sup>2</sup>

\*\* If you are under 65 in the financial year you make the contribution you can contribute a total of \$450,000 over a three year period (in other words, you can pay a lump sum of greater than \$150,000 in one year, so long as your total contribution over the three year period does not exceed \$450,000).

## Binding Death Benefit Nomination forms

If you assume that your superannuation will go to the beneficiaries of your will, you're not alone (refer to 'Securing your family's future' on page 3). In fact, this is only the case if your estate receives your super death benefit. To ensure that your super fund will pay according to your wishes, you may be able to make a Binding Death Benefit Nomination, which directs your fund how to pay your death benefit. This may expedite payment to the nominated beneficiary, without waiting for your estate to be settled and proceeds distributed.

Not all super funds offer this option (although most do), so talk to us about the best way to allocate your super. You should also consider the tax implications, bearing in mind that lump sum payments to dependants for tax purposes are tax free, but taxable components paid to non-dependants for tax purposes will be subject to tax.

## Accessing super: when and how?

Preservation rules ensure that your super is inaccessible until you meet certain criteria, which include:

- retirement on or after preservation age (see table below)
- turning 65
- reaching preservation age and commencing a transition to retirement pension
- suffering from a terminal medical condition
- severe financial hardship (as assessed by the trustee).

It's important to be aware that the amount you can access may be restricted and strict conditions must be met.

Date of birth	Preservation age
Before 1 July 1960	55
1 July 1960 – 30 June 1961	56
1 July 1961 – 30 June 1962	57
1 July 1962 – 30 June 1963	58
1 July 1963 – 30 June 1964	59
From 1 July 1964	60

Source: Australian Prudential Regulation Authority.

A transition to retirement strategy may be very effective and should be discussed with your financial adviser to see if it's appropriate for your circumstances.

When the time does come to access your super, make sure you understand the tax and estate planning implications of choosing to receive it as a lump sum or via an income stream.

## Looking forward: long term strategies for your super

It's a common investment principle that there is no such thing as a 'set and forget' strategy. The same applies to your super. Your investment profile, including your appetite for risk, may change over time so it's important to regularly review your super investment strategy. Other factors to consider are the effects of inflation, tax and fees on your superannuation account.

Diversification is also an important consideration. Spreading your super investments over different asset classes may potentially offer better returns as well as reduce your investment risk. While a lower risk strategy may help you sleep at night, you could be limiting the potential growth of your total super balance, particularly if you still have plenty of time before you plan to retire. So it's worth speaking to us to understand what investment options may be appropriate for you.

<sup>2</sup> Treasury Consultation Paper, *Concessional superannuation contributions caps for individuals aged 50 and over*, 28 February 2011.

# Securing your family's future

Estate planning is something many of us put off until later ... but tackling the issue now can smooth the way for your family and protect your own interests.



When you have a family, the focus of your concerns tends to shift from yourself to providing for them. Whatever life stage you're at right now, to create long term security for both yourself and your family, you need to consider several things:

## Making a will

If you are aged 18 or over and of sound mind, it may be prudent to make a will. Don't be tempted to put it off, because if the worst happens and you die intestate (without a will) your assets will be distributed according to the laws of the State or territory in which you lived at the time of your death, which may not match your wishes.

Writing a will doesn't have to be difficult or complicated. Before you start, work with your financial adviser, in conjunction with your legal or tax adviser, to ensure that your assets and investments are appropriately structured, particularly with regard to potential stamp duty and Capital Gains Tax.

When you're writing a will, carefully consider any family dynamics. Could your will make existing tensions worse? Are you providing for the best interests of everyone concerned? Should you consider a testamentary trust<sup>1</sup> to control how beneficiaries will receive their inheritance? A trust may be relevant if you need to provide a regular income for young children, dependants with an intellectual disability or anyone who may not be able to manage money.

Remember also that any will you have already made will generally be revoked when you get married, so it is essential that you write a new will whenever your circumstances change, including:

- marriage or divorce (including de facto relationships and separation)
- birth or adoption of a child
- purchase of a home or any other substantial investment
- death of a beneficiary in your will (eg partner, child, relative or friend).

## What's not covered by a will

Most of your assets, including possessions, property, money in bank accounts and investments, will become part of your estate once you're deceased and will therefore be governed by the terms of your will.

But there are a number of assets that aren't covered by your will, such as:

- assets owned as a joint tenant (your share will go to the joint tenant)
- assets owned by a company or held in a trust
- superannuation death benefits or life insurance proceeds that are paid directly to a beneficiary rather than to your estate (refer to 'Super Sense' on page 3 for more about Binding Death Benefit Nominations).

If you have life insurance outside of super, you can usually nominate a beneficiary and any payout will go directly to that beneficiary (or beneficiaries) rather than to your estate. Don't forget to take this into account when you are planning your estate.

## What about you?

You may also want to consider a Power of Attorney (PoA) if you believe you may become unable to manage your own affairs. This allows someone to act legally on your behalf. A PoA is only valid during your life. When you die, your will and executor step in.

Another option is appointing an 'enduring guardian', who can make personal decisions on your behalf such as where you should live and what medical treatment you should receive.

The legislation, types of PoAs and guardianship powers vary in each State and territory so it would be prudent to seek legal advice to ensure you structure them in a manner that is most appropriate to your situation.

<sup>1</sup> A testamentary trust is a trust established by someone's will. It comes into existence only when that person dies. Including a testamentary trust in your will can be useful for making tax effective distributions to beneficiaries under 18, caring for children or a dependant who is incapacitated, and preventing beneficiaries from inappropriately spending their inheritance.

# Market update

An update on Australian and global sharemarkets from the Investment Markets Research team at Colonial First State.

## Australian shares – a mixed performance

The Australian sharemarket performed well in the first two months of 2011 although underperformed global sharemarkets. In March losses were recorded with growing tensions and hostility in the Middle East, uncertainty created by the Japanese earthquake and continued government debt issues in Europe. As a result investors began to lose confidence in the prospects of robust global economic growth and equity markets in Australia and offshore retreated.

The S&P/ASX 200 Accumulation Index has risen 3.2% since the end of December 2010. The weak consumer environment remained a key focus for investors during the period, as did the Queensland and Victorian floods and rising oil and food prices.

The Australian economy recorded growth of 0.7% in Q4 2010, up from 0.1% in Q3 2010. The annual pace of growth remained steady at 2.7%. Economic growth during the quarter was driven by household consumption, private sector capital spending and inventories. The terms of trade continued to rise and supported a large rise in national income. With the household savings rate remaining at near 20 year highs, consumer spending remained weak. Looking ahead to the remainder of 2011, the Queensland floods will detract from economic growth over Q1 and Q2 2011. Lower coal exports will be the main drag to growth with some coal mines still unable to produce and export.

The Reserve Bank of Australia (RBA) has left the official cash rate on hold at 4.75% since November 2010. While the medium term outlook for the Australian economy remains optimistic, driven by a once in a generation mining boom, the transition to this growth is taking longer than anticipated. As a result it is expected the RBA will remain on hold till later in 2011 before resuming its process of lifting interest rates.

## International shares – volatility returns

International shares have risen in 2011 although have traded with volatility given a number of significant global events detailed above. The US economy continues to show signs that the recovery has moved into expansion phase. Jobs growth is

critical for further improvements. In mid February the S&P 500 reached its highest level since June 2008, before retreating in March. US companies remain in a sound position and hold around A\$900 billion in cash on balance sheets.

Since the end of December 2010, the S&P 500 returned 5.4%, the Dow 6.4% and the NASDAQ 4.8%. Returns in Europe were mixed compared to economic performance. The German economy is the strongest since reunification 20 years ago, and the DAX index rose 1.8%. Equity markets in Spain and Portugal returned 7.9% and 2.5% respectively, despite sovereign debt issues.

Asian market returns varied with the focus on Japan following the devastating earthquake in March. The Nikkei fell sharply and since the end of December is 4.6% lower. Economic growth in Japan will fall sharply in the short term due to loss of activity with power blackouts delaying considerable economic activity.

Elsewhere the Chinese authorities continue to tighten policy to control inflation with price stability to be the main focus of its next five year plan due to start in 2012. Equity markets in the region were also mixed with Hong Kong (+2.4%), Singapore (-2.6%) and Thailand (+1.4%). The Chinese sharemarket rose 4.3%.

## Currencies – Australian dollar mixed against the major currencies

The AUD has performed in a mixed fashion against the major currencies. Against the USD the AUD is being supported by commodity prices and higher interest rates. Against the Euro and Sterling the AUD has fallen since the end of December 2010 as expectations rise that the Bank of England and the European Central Bank could begin to lift official interest rates over coming months.

Since the end of December, the AUD rose 1.3% against the USD buying US\$1.0359. In contrast the AUD has fallen 4.6% against the Euro and almost 2% against the Sterling. At the end of March 2011, the AUD was buying NZ\$1.356, ¥85.8, £0.6448 and €0.7303.

Note: Data to 31 March 2011. Past performance is no indication of future performance.

We are always available to discuss any questions or concerns you may have.

### Important information

This publication contains financial product advice of a general nature only and has been prepared without taking into account your particular financial needs, circumstances and objectives. This information is based on Financial Wisdom Limited's understanding of the relevant law(s) and economic situation as at 8 April 2011. While every effort has been made to ensure the accuracy of the information, it is not guaranteed. You should obtain professional advice before acting on the information contained in this publication.

All investments are subject to risk, including loss of income and capital invested. Past performance is no guarantee of future performance.

Taxation considerations are general and based on present taxation laws, rulings and their interpretation as at 8 April 2011. You should seek independent professional tax advice before making any decision based on this information.

Financial Wisdom advisers are Authorised Representatives of Financial Wisdom Limited ABN 70 006 646 108, AFSL 231138, a wholly owned but non-guaranteed subsidiary of Commonwealth Bank of Australia ABN 48 123 123 124.