

Ideas, September 2006

In our first newsletter under our own licence, Jo McCreery and Lisa Faddy look at how you may be able to benefit from the recent changes to superannuation and whether you need to rethink your super strategy.

Why rethink your super strategy?

When the Government's planned changes to superannuation come into force on 1 July 2007, superannuation will suddenly become a far more attractive investment structure for many people. In addition to its existing tax benefits, it will offer:

- **tax free pensions** in retirement;
- no penalty tax for large superannuation balances (that is, **no RBLs**).

Superannuation already offers:

- a low tax environment for accumulating retirement savings;
- no tax on earnings in retirement;
- the opportunity to save considerable income tax through salary sacrifice.

In addition, as of last year, you can access a pension from your super once you reach preservation age (55 to 60). You no longer have to be retired from the workforce to access your super. This tax free pension (as of 1 July 2007) offers considerable tax saving opportunities.

However, now that the Government has made super more attractive, it has also made it **harder to get money into super**. This means that to ensure you have a significant portion of your wealth in super at retirement, **you may have to start contributing earlier**.

Who should be reviewing their super strategy?

- If you have investments outside super and:
 - are nearing retirement and still working;
 - have stopped working, and are under 65.
- You are on a high marginal tax rate and used to have a potential RBL problem.
- You are only contributing the 9% SGC amount.

Some specific changes that you should know about

- **A cap on contributions** – Personal contributions out of after-tax funds are capped at \$150,000 pa and the maximum tax-deductible contributions allowed for people over 50 will come down to \$50,000 (was \$100,587). (There is a higher limit for five years if you are currently over 50.)
- **No Reasonable Benefit Limits (RBLs)** – Previously, the Government limited how much people invested into super by setting a maximum amount that would benefit from concessional tax treatment in retirement. This limit led to superannuation splitting strategies at retirement and more recently, spouse contribution splitting in the accumulation phase. Now that RBLs are to be abolished, these strategies are not needed.
- **A contribution window of opportunity until 30 June 2007** – The Government has recently announced that they will allow undeducted contributions of up to \$1 million into super if made before 1 July 2007. This is an opportunity for people close to retirement, or retired but under age 65, to make a large contribution this year and potentially significantly improve after tax income in retirement.

Majella Wealth Advisers Update

We are pleased to announce that we now have our **own Australian Financial Services Licence (AFSL)** under the name of Majella Wealth Advisers. While in the past, we have run most aspects of our business ourselves, we were licensed through another dealer group. Having our own licence will give us full control of all aspects of our business.

Naturally, in all we do we are bound by the legal requirements that ASIC imposes on AFS licensees. We also adhere to the ethical standards set out by the Financial Planning Association.

What does having our own licence mean for our clients?

Having our own licence has a number of **benefits for both us and our clients:**

- it gives us complete **control** of our business, allowing us to serve clients as we believe is best;
- it allows us to remain **independent** of product providers, so reinforces our approach to provide clients the best advice that is always in their best interest;
- it means we can be very **responsive** to client needs – there is no red tape;
- in the long run, it will reduce our operating costs, allowing us to **keep client fees down**.

It is an exciting move for us and one that we believe will benefit our clients now and into the future.

Sector Review - Property

Our concern: the potential over-valuation of the Australian listed property trust market, its increasing concentration in a small number of large trusts and its increasing development risk.

Outcome of our research: an increased weighting in our portfolios to direct property funds and international property.

Benefits of these sectors:

- *Direct property* – tax advantages through tax-deferred distributions, more stability of market value.
- *International listed property* – significant growth opportunities as listed property is a growing sector in the US, Europe and Asia.

Please contact us if you would like to discuss any of these ideas:

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