

Restructuring and new beginnings at Sound Life.

We would like to inform our clients of the changes that have taken place at Sound Life. John Corbett has decided to set up a business independent from Sound Life. In the meantime we will be introducing Thelma Jaekel as our adviser who will be assisting Richard with your portfolios and Jane Looker our practice manager, both of whom you may have met already. 2012 is set to be a challenging year with the state of the unsettled global economies. The team at Sound Life are here to help you and reassure you of our commitment to ongoing sound financial advice and support.

The Super Guarantee turns 20

This year marks the twentieth birthday of the Superannuation Guarantee, Australia's unique system of compulsory retirement savings funded by employers. What was once a privilege extended to professionals and public servants is now the right of all employees who earn more than \$450 a month.

As a result, Australians now have more than \$1.2 trillion invested in super, up from \$230 billion in 1995¹. In the process, the Superannuation Guarantee, or SG as it is known, has changed the investment landscape in ways that few people could have imagined back in 1991.

For many individuals, super is their largest financial asset outside the family home and this provides a compelling incentive to take more interest in their investments. At a national level, the SG is designed to create a financial buffer to support our rapidly ageing population in retirement.

But the SG has turned super into more than just a retirement savings vehicle. During the 2008/09 financial crisis, Australia's superannuation system provided a pool of money to help cushion the economy from the worst of the financial shocks². Super funds have invested about \$50 billion in new infrastructure projects, and provided up to half of new capital raised by Australian companies to repay debts³.

The Three Pillars

Governments in many countries, including our own, are grappling with the social and financial challenges of increasing longevity. Most developed nations have some form of government age pension supplemented by private pension schemes.

Australia has developed a 'Three Pillars' retirement income system which relies on a combination of government age pension, employer-funded superannuation, and private savings.

Like Australia, countries such as the Netherlands and Sweden, widely regarded as having excellent pension systems, have some form of compulsory private pension, whereas private pensions in the US and UK – although widespread – are voluntary.

A global comparison of retirement income systems in 14 developed nations ranks Australia fourth behind the Netherlands, Switzerland and Sweden. The verdict of the Melbourne Mercer Global Pension Index⁴ is that Australia is doing well, but could do better. Suggested improvements are increasing the SG to 12 per cent, reducing the costs of super, increasing the workforce participation of people aged over 55, and making it compulsory for people to take at least part of their super payout as a pension. Some of these reforms are already in the pipeline.



Sound Life Financial Services Sound Life & Superannuation Agencies

Safe, Sound, Retirement & Investment Solutions

13 009 253 258

43 Aberdeen Street

Albany WA 6330

43 Aberdeen Street

Albany

WA 6330

Richard Duffield DipFP, CFP
Thelma Jaekel Dip FS, Adv Dip Acc

PO Box 94

Albany

6331

Phone: (08) 9841 1688

Fax: (08) 9841 8611

Email: jane@soundlife.com.au

Email: thelma@soundlife.com.au

Web: www.soundlife.com.au

1 ATO.

2 The Weekend Australian, 17-18 September, 2011.

3 ASFA, The Allen Consulting Group, Better living standards and a stronger economy: the role of superannuation in Australia, September 2009.

4 Melbourne Mercer Global Pension Index 2010.

The Sandwich Generation

Does your typical workday include racing home to pick up the kids from school as well as spending time caring for, or worrying about your aged or ill parents?

Welcome to the 'Sandwich Generation' where you feel squeezed at both ends with very little time for 'self' in the middle.

A growing proportion of families, women in particular, are suffering from the combined effects of an ageing population where parents live longer and teenagers are staying at home longer. No wonder we feel 'squeezed'.

The challenges facing the Sandwich Generation

Juggling the often-competing interests of your parents and your children is fraught with challenge. Both groups require very different types of care and attention, with neither necessarily accepting of the needs of the other. And you are in the middle, feeling stretched and alone.

Despite these challenges, many of us simply can't ignore the plight of our loved ones, especially our parents, as they begin to age and decline. Our love and care response kicks in to provide support.

What you can do

To better cope with this growing challenge:

- 1 Never forget your own priorities in life** – try to balance your needs with those for whom you are caring. Maintaining a sense of self will help to define what gives your life true meaning and purpose.
- 2 Take care of your relationship with your partner** – the emerging needs of your parents may raise new anxieties in your partner, who is less equipped to deal with the emotional and family bonds that are core to your life. Your partner has an important role in offering his or her support, comfort and shared views on the important issues you face together.
- 3 Manage your parents' needs** – listening to their needs and gauging their responses will help you address their expectations and assumptions about a mutually agreeable level of care.
- 4 Manage your children's needs** – be clear about the expectations you have of them and ask for their support and understanding with the importance of caring for family. Listening to their concerns will help you to reinforce your key message that 'we all need to contribute to be an effective, loving family'.



- 5 Seek the advice of experts** – making the right choices will be your key to success and allows you to share your concerns with knowledgeable professionals. Additionally, experts help to give you confidence that you are making the right choices.
- 6 Financial issues can magnify stress unnecessarily** – good financial management can have many benefits and may be an essential strategy for coping with major, and sometimes costly, transitions like moving your parents to an aged care facility or supporting your kids into their own homes.

Remember, to speak to your financial adviser if you are feeling the squeeze. Your adviser can go through your options to determine the best solutions for you, your parents and your kids. We also have aged care specialist services available to ensure you make the right choices for aged care.

Super way to spend your retirement

The rapid growth of self-managed super funds (SMSFs) continues in Australia, with more than one-third of new funds in the June 2011 quarter started by people close to retirement age, and possibly already receiving a superannuation pension¹. This response should be no surprise; retirement usually means more time to play an active role in managing your portfolio, in collaboration with your adviser.

Making the shift

People often choose the SMSF option because it provides flexibility, transparency and control over your own investments, allowing you to make adjustments to suit your own needs.

The popularity of SMSFs cannot be denied, with the Australian Prudential Regulation Authority reporting a 7.7 per cent rise in the number of SMSFs to 456,472 in the year to 30 June 2011². About two-thirds of new SMSFs established in the latest June quarter were by people in accumulation phase, the under 55 age group³.

Cash flow

The need for cash flow is a key difference between the accumulation and the pension phases. In pension phase, you will probably be drawing down money on a regular basis and if you are aged 55–64, by law your minimum drawdown per year is 4 per cent of your account balance (although it has been lowered temporarily since 2008/09 until the end of 2011/12). It increases to 5 per cent if you are aged 65 to 74, and up to 14 per cent for those aged 95 plus⁴.

While you need to make sure you have sufficient liquid funds to meet these draw-downs each year, do not forget that you could spend 30 plus years in retirement. This is a timely reminder that asset allocation is just as important in pension phase as it is in accumulation phase.

The importance of cash flow is one of the main reasons why direct property may be considered too illiquid an asset to hold in the pension phase, especially if it represents a significant portion of the total assets in the SMSF. Rental yields, after costs, may not meet your income needs. If your property was



without a tenant for some time, this could add further pressure and perhaps force the sale of other assets in the fund or even the property itself at an inappropriate time.

Some practical issues

If your SMSF is in accumulation phase, it can be beneficial to commence a pension before selling an asset with an unrealised capital gain, as there is no capital gains tax payable in the pension phase.

You will also have to segregate your pension assets within the fund if there are other members still in the accumulation phase, because income earned in the pension phase is tax free. If you do not properly segregate the assets, then you will need to have an actuarial certificate each year. Getting the right advice on this from your accountant is critical, and the best results come when your financial adviser and accountant collaborate.

If you are under age 75 and still working, you may want to retain some monies in the accumulation phase so that you can still make contributions to your super. Remember, you cannot make a contribution to an existing pension.

If you are still contributing to super (and over age 55), consider switching this money into the pension phase either once you achieve a certain lump sum amount, or every couple of years. One advantage is you do not pay

15 per cent tax on investment earnings in the pension phase whereas you do in accumulation phase. The switch can be achieved by creating a new pension which incorporates all your retirement savings, or setting up a second pension income stream.

Corporate trustees

One consideration when setting up your SMSF to provide a pension is what will happen in the event of you becoming incapacitated or if your partner were to die? It might be worth setting up a corporate trustee for the fund rather than individual trustees. That way, should one of the fund members leave the SMSF, become incapacitated or die, the fund would continue to run with minimal disruption. The set-up costs are more expensive, but in the longer term the benefits may outweigh these costs.

Liz Westover, head of superannuation at the Institute of Chartered Accountants, says a corporate trustee provides greater flexibility in the types of benefits paid, perpetual succession, administrative efficiencies, flexibility in estate planning and a reduction in the risk of mixing fund assets with personal assets⁵.

Most SMSFs outsource at least some of their administration and advice requirements to financial advisers, and this outsourcing can be expanded as time goes by.

It is obvious that running an SMSF calls for legal and financial responsibility, so it is wise to seek professional advice. But the flexibility, control and transparency an SMSF offers makes it a worthwhile consideration, particularly in the early years of retirement.

1 <http://www.ato.gov.au/superfunds/content.aspx?menuid=49150&doc=/content/00290021.htm&page=19&H19>

2 <http://www.ato.gov.au/superfunds/content.aspx?menuid=49150&doc=/content/00290021.htm&page=6&H6>

3 ATO.

4 [http://www.treasury.gov.au/contentitem.asp?NavId=&ContentID=1492-15k-\[asp\]](http://www.treasury.gov.au/contentitem.asp?NavId=&ContentID=1492-15k-[asp])

5 <https://www.charteredaccountants.com.au/secure/myCommunity/blogs/lwestover/superannuation-blogs/110/convert-to-a-corporate-trustee>

Women and money

Against a backdrop of global debt woes and financial market uncertainty, Australian women are more worried than men about their financial wellbeing and less optimistic about the economic outlook.

According to recent surveys by Million Dollar Woman, only 30 per cent of working women are confident that Australia will avoid an economic downturn, compared with 47 per cent of men¹. What's more, nearly twice as many women (18 per cent) are pessimistic about the economy's future than men (10 per cent)².

It is not clear from the research why women are more concerned about their finances than men, but there are a number of possible reasons.

In most families, women have primary responsibility for household shopping so they may be more sensitive to rises in the cost of living.

Debt could also be an issue. Research by Million Dollar Woman found that women owe \$2.60 for every \$1 they earn, compared to \$2.10 for men³. Debt can be good when it is used to build wealth, but it causes problems when it is used for everyday spending and not managed wisely. The less income you

have, the more difficult it is to support a significant amount of debt.

Not only do women earn less than men on average, they are more likely to take time out of the workforce to raise children, leaving them with less money saved for retirement. The average superannuation balance in 2009/10 was just \$40,475 for women compared with \$71,654 for men⁴.

Knowledge is power

There is another possible explanation for women's lack of optimism; perhaps they are just more realistic than men. The most famous study of gender differences in investing, by academics at the University of California, found that male investors tend to be overconfident and this leads them to trade their share investments more often than women and take greater risks⁵. But men were no more skilful or successful than women. Could it be that women are more willing to own up to the fact that they do not know everything?

While women may have good reasons to be less optimistic than men, it does not mean they are powerless to act.

The best way for women – and men – to take control of their financial destiny is to increase their knowledge.



Your financial adviser can help keep your finances on track but the more you learn about investment and sound money management the brighter your future will be.

- 1 Million Dollar Woman, Australia's financial outlook 'worries' women, 19 August, 2011
- 2 Allianz Future Optimism Index, 23 August, 2011
- 3 Million Dollar Woman, *ibid.*
- 4 ASFA, based on ABS Survey of Income and Housing 2009/10 (released 19 September 11)
- 5 Brad Barber and Terrance Odean, 'Boys will be boys: Gender, overconfidence and Common Stock Investment', Quarterly Journal of Economics, February 2001.

Capping to the max

When there is a chance to cut the tax bill, most of us want to take a closer look. By increasing your superannuation contributions now you may have a chance to build your retirement benefit and possibly cut your current and future tax bills.

Why? Because once you have turned 60, your super pension is tax-free, this allows you to put as much as possible into super while you still can.

If you already have more than \$500,000 in your super and are over 50, this financial year will be your last chance to contribute up to \$50,000. From 1 July 2012, it is proposed that the concessional contribution cap for those aged over 50 with more than \$500,000 in super will be halved from \$50,000 to \$25,000, the same cap applying to the under 50s.

However, if you are over 50 with less than \$500,000 in your super – one of 275,000 Australians according to government estimates¹ – the cap will stay at \$50,000.

But always remember, if you breach your cap you may be liable to pay the top marginal tax rate of 46.5 per cent on the excess contribution.

Tax-free earnings

Super becomes more attractive once you are in the pension phase, as all money earned within the fund is tax-free. That is an instant saving of 15 per cent tax on interest earned or dividends paid on your retirement investments.

Once you turn 60, both your pension income and all your drawdowns are tax-free.

There are also potential tax savings from salary sacrificing. Even if you are not in pension phase, you will only pay 15 per cent contributions tax rather than your full marginal tax rate which may be up to 46.5 per cent².

Transition to retirement

The tax break on salary sacrificing into super is one of the key reasons why a transition to retirement (TTR) strategy is recommended for over 55s. Under a TTR strategy, you can draw money from your superannuation fund while salary sacrificing up to your concessional cap at the same time. The result may be a reduction in tax payable.



For many people, it is well worth seeking advice in relation to TTR since the tax benefits may be significant.

Given the tax-friendly super environment, you should consider increasing your contributions to super while you still have the opportunity.

- 1 http://www.futuretax.gov.au/content/Content.aspx?doc=FactSheets/concessional_contributions_caps.htm
- 2 <http://www.ato.gov.au/super/content.aspx?doc=/content/38172.htm%20>