

Simplified Super System

How will it impact you?



Presented by: **Rob Wintour** B.Bus.Accy., Dip F.P., C.Dec., A.F.P.A

Len Arico CFP., Dip F.P

Authorised Representative of Charter Financial Planning Ltd

Agenda

- Simplified super system begins from 1 July 2007
- Details of changes, what they could mean for you and three case studies
- How to have your cake and eat it too as you transition towards retirement, plus case study
- Summary and questions



Providing Strategic Financial Advice

What is the simplified super system?

- Plan to simplify and streamline super announced in May 2006 Federal Budget
- Substantial overhaul of current complex super system
- Most of the changes will come into effect by 1 July 2007



Tax-free super benefits if you're 60 or over

- Lump sums or pension payments will be tax free from age 60
- Benefit will not form part of assessable income from age 60
- Good reason to consider super over other forms of investment structures
- If you are over 60, consider postponing withdrawals until 1 July 2007, to reduce your tax



Steve's story

- Steve, 61, wants to withdraw \$50,000 from his super to pay for an overseas holiday
- Before 1 July 2007, the lump sum will be taxed at up to 16.5 per cent*
 - Steve will pay up to \$8,250 in tax leaving him with \$41,750 for his holiday
- From 1 July 2007
 - Steve will pay no tax and have \$50,000 for his holiday

*Assuming that Steve has already used his tax free threshold of \$135,590 (2006/07 threshold) and the \$50,000 is being withdrawn from Steve's taxable component



Craig and Vera's story

- Craig and Vera, both 63, are currently receiving allocated pensions and have a total net income of \$80,275 pa

	Craig	Vera
Gross pension	\$ 45,000	\$ 40,000
Tax and ML*	\$ 2,775	\$ 1,950
Net pension	\$ 42,225	\$ 38,050

* Based on 2006/07 tax rates, including Medicare levy, assuming no other income received

- From 1 July 2007, their pensions will be tax-free, giving them a total net income of \$85,000 pa – an extra \$4,725 per annum.



Benefit limits and cashing restrictions abolished

- Reasonable Benefit Limits (RBLs) abolished
- Compulsory cashing abolished so you can maintain super in accumulation phase indefinitely



Case study 3

- Bruce, 55, is a high income earner who has \$800,000 in super and has the following RBL position:

Up to lump sum RBL*	\$678,149
Excessive amount	\$121,851
Total	\$800,000

* 2006/07 threshold, indexed annually. Pension RBL is \$1,356,291 for the 2006/07 financial year. It is assumed that Bruce's withdrawal is assessed against the lump sum RBL.

- Concerned about higher tax on the excess amount, Bruce stopped making salary sacrifice contributions to super
- But with RBLs abolished, he can now think about contributing more to his super



[New limits on non-concessional (undeducted) contributions

- From 1 July 2007 there'll be a \$150,000 annual limit on non-concessional (undeducted) contributions, but if you're under 65, you can contribute up to \$450,000, averaged over three years
- Cap of \$1 million on non-concessional (undeducted) contributions made between 10 May 2006 and 30 June 2007
- Anything over the limits will be taxed at top marginal rate of 46.5 per cent



New limits on concessional (deductible) contributions

Simplified limits

	Deduction limit before 1/7/07	Concessional contribution cap from 1/7/07
Under 35	\$ 15,260	\$ 50,000
35 to 49	\$ 42,385	\$ 50,000
50 to 69	\$ 105,113	\$100,000 for 5 yrs until 30/6/2012 and \$50,000 from 1/7/2012
70 to 74	Nil	

- Excess concessional contributions taxed at 46.5% and included in non-concessional contribution limit



Super incentives for self-employed people

- Personal concessional contributions by self-employed individuals will be fully tax deductible
- Self-employed individuals may also be eligible for the Government co-contribution
- Eligible for the post-June 1994 invalidity component



Lower minimums and no maximums for pensions

- Simplified rules for pensions drawn from your super, from 1 July 2007
- No maximum limit on your pension *
- Lower minimum limits:
 - 4 per cent of balance if you're aged between 55 and 64
 - 5 per cent of balance if you're aged between 65 and 74
 - 6 per cent of balance if you're aged between 75 and 79

* Special rules apply to non-commutable allocated pensions or NCAPs



Providing Strategic Financial Advice

Social security changes

- 50 per cent asset test exemption will not apply to complying income streams commenced on or after 20 September 2007
- Asset test taper rate will reduce from \$3 to \$1.50 per fortnight for every \$1,000 of assessable assets above the relevant threshold :
 - \$515,500* for single homeowner
 - \$818,000* for couple homeowners

* Based on the rates and thresholds as at 20 March 2007



Providing Strategic Financial Advice

Transition to retirement strategy

- **Problem** – how to boost your super as you transition to retirement without lowering your current income
- **Solution** – a strategy based around accessing your super through a non-commutable allocated pension (NCAP)
- **Action steps**
 - Continue to work
 - Boost your super with salary sacrifice payments
 - Maintain current income with an NCAP
- **Result** – have your cake and eat it too with more super for your retirement



Your preservation age

Preservation age

If your date of birth is:

Your preservation age is:

Before 1 July 1960

55

Between 1 July 1960 and 30 June 1961

56

Between 1 July 1961 and 30 June 1962

57

Between 1 July 1962 and 30 June 1963

58

Between 1 July 1963 and 30 June 1964

59

After 30 June 1964

60



Providing Strategic Financial Advice

NCAPs in a nutshell

- NCAPs can only be started once you reach preservation age
- Purchased with superannuation money
- No work test
- Minimum and maximum income limits apply
- Lump sum withdrawals (commutations) generally not allowed



How to have your cake and eat it too

- Once you've reached your preservation age, continue to work at your present level
- Purchase an NCAP with your superannuation money
- Salary sacrifice into your super account (employer must agree)
- Maintain current income by drawing a pension from your NCAP
- Tax advantages mean your income stays the same but your super may receive a growth boost



Peter's story

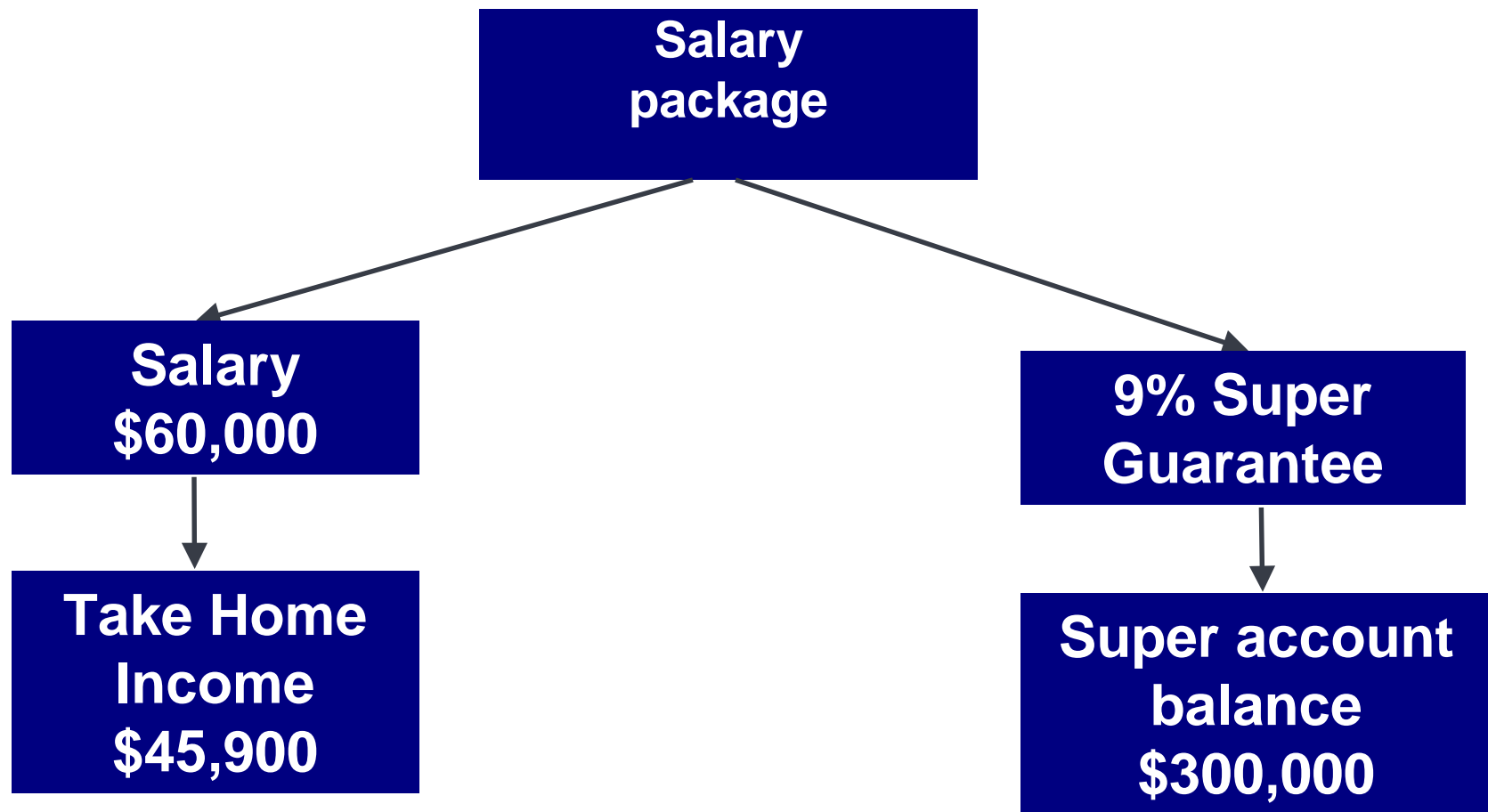
- Peter, 55, wants to retire at 65 and work full-time until then
- He earns \$60,000 per year - \$45,900 after tax and Medicare levy
- Peter has \$300,000 in super
- On 1 July 2006, Peter rolls over all his super into an NCAP and chooses the maximum pension payment of \$26,090
- He salary sacrifices \$32,314 (Year 1) into super and receives the same net income of \$45,900 after tax and Medicare levy

The projections in this strategy are based on various assumptions, including but not limited to: maximum pension payment = \$26,090 in year 1; salary sacrifice = \$32,314 in year 1; no change in take-home pay before/after strategy; no change in risk profile; estimated investment return (Balanced portfolio) = 5.9% pa (super), 6.8% pa (pension); all investment earnings figures are after tax and after fees; no change in Super Guarantee contributions, ie 9% of \$60,000; ongoing administration fees are not included.

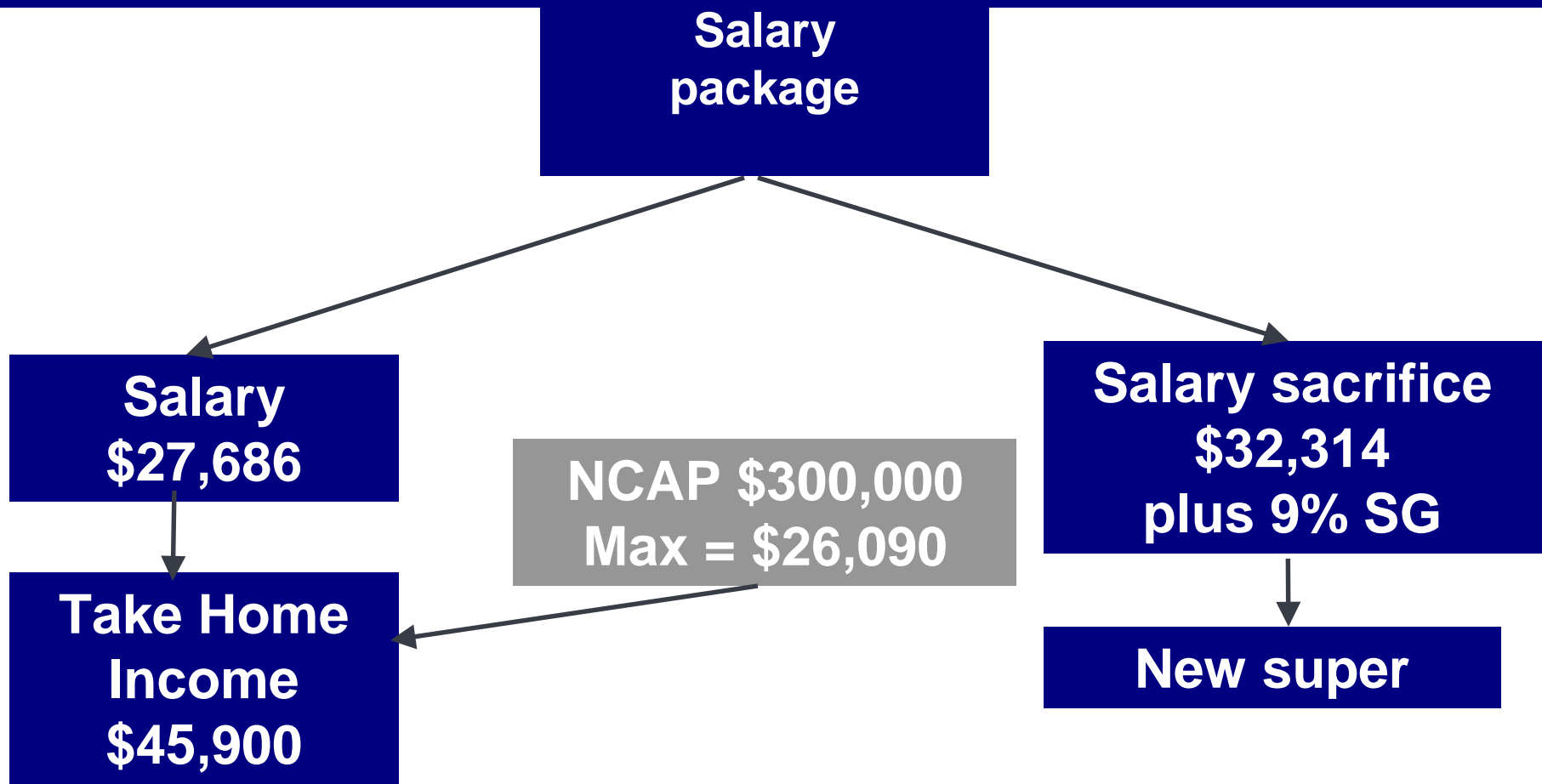


Providing Strategic Financial Advice

Peter's position without the strategy



An NCAP gives Peter a super boost



The projections in this strategy are based on various assumptions, including but not limited to: maximum pension payment = \$26,090 in year 1; salary sacrifice = \$32,314 in year 1; no change in take-home pay before/after strategy; no change in risk profile.

Estimated investment return (Balanced portfolio) = 5.9% pa (super), 6.8% pa (pension); all investment earnings figures are after tax and after fees; no change in Super Guarantee contributions, ie 9% of \$60,000; ongoing administration fees are not included.



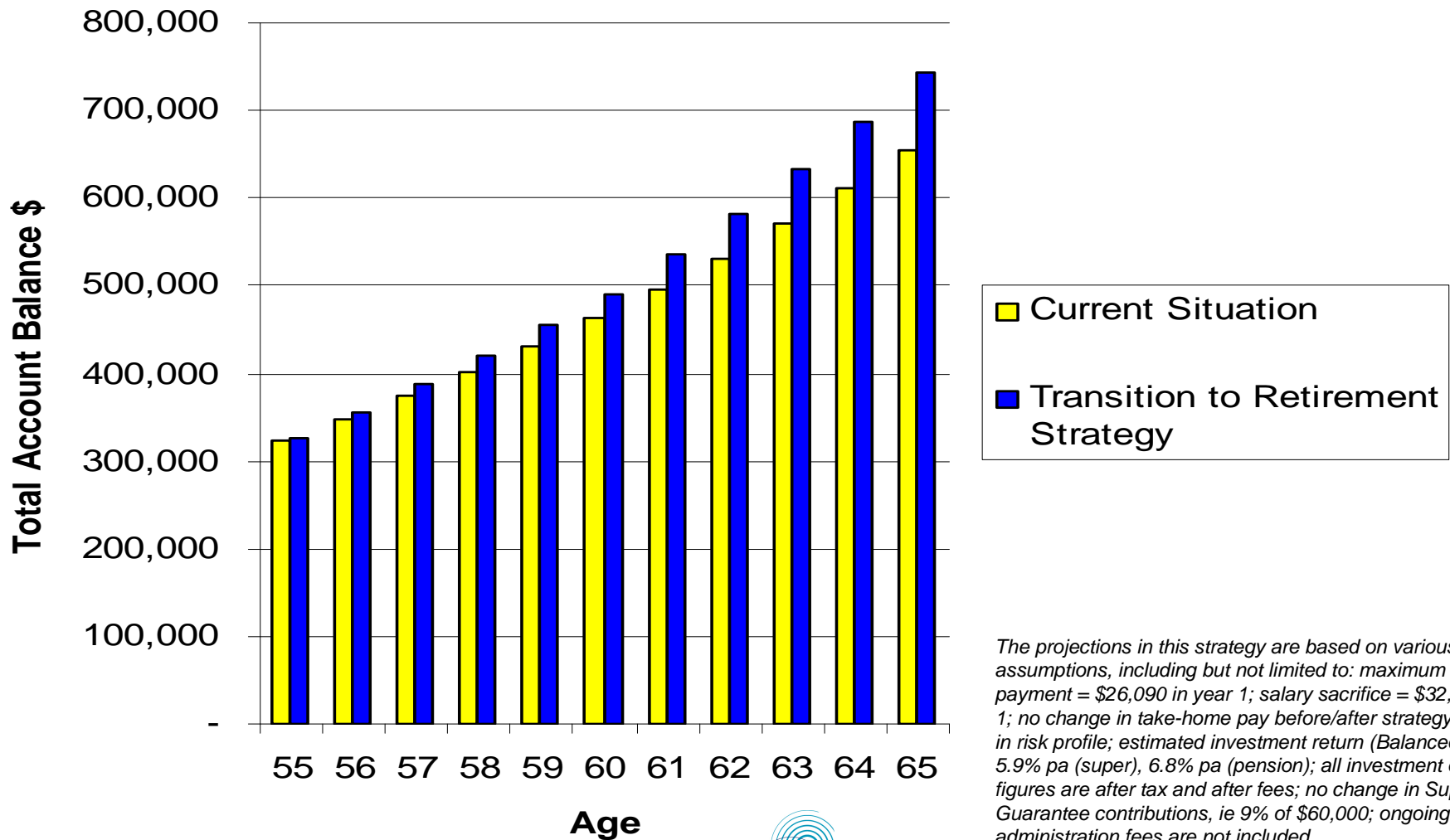
Providing Strategic Financial Advice

Peter's estimated gain

- It's estimated that by using this strategy Peter will have built an extra amount of around **\$88,700** in super by age 65
- The increase is due to tax advantages and will not require a change in investment strategy
- By making additional salary sacrifice contributions Peter could increase his super still further



Peter's estimated gain



The projections in this strategy are based on various assumptions, including but not limited to: maximum pension payment = \$26,090 in year 1; salary sacrifice = \$32,314 in year 1; no change in take-home pay before/after strategy; no change in risk profile; estimated investment return (Balanced portfolio) = 5.9% pa (super), 6.8% pa (pension); all investment earnings figures are after tax and after fees; no change in Super Guarantee contributions, ie 9% of \$60,000; ongoing administration fees are not included.



Providing Strategic Financial Advice

Key points

- From 1 July 2007, lump sum withdrawals and income stream payments are tax free from age 60
- Window of opportunity to contribute \$1 million before 1 July 2007
- Over 50s will also benefit from a 5 year transitional limit on concessional contributions
- Transition to retirement strategy using an NCAP should be considered by people over 55 and still working
- You should get advice about how the super changes affect your situation



Disclaimer



The information, forecasts and opinions set out in this presentation have not been prepared for any recipient's specific investment objectives, financial situation or particular needs. Recipients should assess whether they are appropriate to their own peculiar circumstances before taking any action on the basis of this presentation. They can do this themselves or seek the help of an adviser. Information, forecasts and opinions can change without notice and Charter Financial Planning or Argentis do not guarantee the accuracy of the information at any particular time. Investment risks include currency, economic, political, market and other risks. Forecasts can be impacted by such risks. Past performance does not guarantee that future performance will be the same or even similar. Investment values can go down as well as up. Whilst all reasonable care has been taken in the preparation of this presentation, neither Charter Financial Planning nor any related bodies corporate is liable for any action taken by any person on the basis of anything said or contained in this presentation.

This presentation has been prepared by Argentis. NCWP Pty Ltd and Northern City Financial Services Pty Ltd trading as Argentis are Corporate Authorised Representatives of Charter Financial Planning Limited. The Australian Securities and Investment Commission (ASIC) has granted NCWP Pty Ltd and Northern City Financial Services Pty Ltd authority to provide financial services on behalf of Charter Financial Planning Limited. NCWP Pty Ltd has been assigned an ASIC Representative Number of 295779 and Northern City Financial Services Pty Ltd has been assigned an ASIC Representative Number of 252481. Charter Financial Planning Limited – Australian Financial Services Licensee, Licence number 234665, ABN 35 002 976 294.



Providing Strategic Financial Advice