# Ensuring a SUPER retirement

***Put your super to work for your business – and put your business to work for your super, says Leigh White.***

Superannuation, shares, property – what is all the fuss about?

As a result of the past three years of share market volatility and economic uncertainty, particularly in Europe and the United States, many business owners are questioning whether investing in shares is the best strategy to plan for their retirement or whether they should explore other options or even reduce their super contributions to avoid further losses.

Retirement standard data, released by the Association of Superannuation Funds of Australia (ASFA), states that a couple nearing retirement need income of approximately $55,000 per annum or, correspondingly, an amount of approximately $900,000 at retirement to maintain a "comfortable style of living".

Peter Quinn, a chartered accountant and certified financial planner, believes that many professionals, particularly in the pharmacy and medi-

cal sectors, would require substantially more than these amounts to maintain their existing style of living.

## PLANNING FOR RETIREMENT

Let's start with superannuation. When we examine superannuation we should consider two separate components. Firstly, the structure and secondly the investments within super, according to Mr Quinn.

"When planning for retirement there is no doubt that the superannuation vehicle is the best structure to use to achieve this objective" explains Mr Quinn.

"The second component is the investments within superannuation. Most industry and retail funds invest in shares, property trusts, bonds and cash."

Many professionals are now taking more control over their superannuation investment strategy. Last December, 2011, the Australian Taxation Office (ATO) issued a report titled ***Self-managed superannuation funds: a statistical overview 2008/09***, suggesting that Australians are choosing SMSFs because they want more control over their superannuation.

According to the report, self-managed superannuation funds (SMSF) have been the fastest growing sector within the Australian superannuation industry in the five years to 30 June 2010, comprising "99 percent of the number of funds and over 30 percent of the $1.23 trillion total super assets".

At 30 June 2010, there were around 425,000 SMSFs holding almost $387 billion in assets. There were 810,000 members in the SMSF sector, making up around seven per cent of the 11.6 million members in Australian super funds.

During this five year period, total super assets grew by 60 per cent, while SMSF assets grew by 122 per cent. This indicates that people are seeking greater control over the retirement future and looking for new avenues.

In terms of SMSF asset holdings, there was a significant shift away from listed trusts, other managed investments and listed shares towards safer asset investments in cash, term deposit and real property.

## WHERE SHOULD WE INVEST?

If we look at professionals aged over 65, typically they own their own home, have brought up their family and have not accumulated a great deal of superannuation. By contrast, if we look at a young professional today with their statutory 9 per cent superannuation and the proposed increase to 12 per cent, in our opinion they will have substantially more superannuation at retirement than the older professional aged 65, but will be fortunate if they own their own home.

So, where is that money going to come from? If you plan to continue working for the next 20 years or more, and you expect superannuation to be your main source of income, then finding ways to get your own business to work harder for you may make a lot of sense.

## WHAT IS THE ANSWER?

If you own your own business, occupancy costs are probably one of your top three expenses, along with cost of goods and salaries. Depending on your location, your rent may be your second highest expense.

One investment option, only available within a SMSF, that has particularly captured the interest of investors who are looking to aggressively grow their super is the ability to borrow funds to purchase a commercial premises or an investment property. This type of complex strategy isn't suitable for everyone, but through using their super, or pooling balances with a partner or family members, to make a deposit, the

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SMSF can then borrow the remainder and gain exposure to residential or commercial investment property.

"Previously, the superannuation fund was not permitted to borrow, so the super fund needed sufficient cash to purchase that property with its existing cash reserves. Now, as a result of the changes in legislation, the superannuation fund is permitted to borrow under certain strict conditions," explains Mr Quinn.

Essentially this strategy involves purchasing a property in an SMSF and using the annual super contributions and the rental income to pay off the debt on the property loan.

"For business owners this strategy enables them to purchase their business premises in their superannuation fund. Rather than paying rent to a landlord, the business entity pays rent to their self-managed superannuation fund that acquires the business premises and becomes the landlord," Mr Quinn said.

Hypothetically, let's say you wish to purchase a $550,000 commercial premises for your business. Then let's say you and your spouse have a combined superannuation value of $100,000 currently in your existing superannuation fund.

The first step is to set up a Custodian Trustee to act as the legal owner for the property and your own SMSF. The existing superannuation is supplemented with a limited recourse loan of $450,000. This loan amount will be repaid at say 7.5 per cent over 20 years.

Your rent quickly helps build the equity in your own SMSF.

Your business will then pay an annual rental amount of say, $50,000, the same market rental cost that your business would have otherwise paid to a landlord. Your business's rent plus any further super contributions, helps reduce the loan in your superannuation fund while the capital value of the property increases.

Ideally, the asset will grow in value and by utilising your SMSF you will minimise your tax and future capital gains tax liabilities.

## WHAT ARE THE BENEFITS?

⋆Your SMSF can acquire property worth more than its available funds.
⋆ If your property rises in value as historically tends to be the case, your capital gains are multiplied.
⋆ Interest on the borrowed money is generally tax-deductible, which can potentially reduce your SMSF's tax liability.
⋆When you retire and commence your pension, you can lease your business premises to a new owner – and the rental income received from the property will be 100 per cent tax exempt.
⋆Your assets are secure as the lender does not have recourse to your SMSF's other assets in the event of a default.

## WHAT ARE THE RISKS?

⋆ Just as gearing magnifies your potential returns, it also magnifies your potential losses.
⋆ Any accumulated equity cannot be accessed.
⋆ There are restrictions on alterations to the property.
⋆ If interest costs significantly outweigh investment returns, this shortfall must be funded. It may be covered by the income from non-geared investments or you may need to contribute additional funds to your SMSF.
⋆ Changes in interest rates can impact on your gearing strategy.

"There is a bit of thinking to do before setting up an SMSF and for further peace of mind, an important part of planning a comfortable future is checking your personal insurances and estate planning are in order," said Peter Quinn.

"Protecting your assets through life insurance and ensuring that the loved ones and beneficiaries you'd like to pass your assets on to end up receiving them gives you peace of mind."

## IS THIS REALLY SUITABLE FOR ME?

Investing in property must be consistent with your SMSF investment strategy. This SMSF strategy is rarely suitable for conservative investors.

Your finances should be in order and you should have an historical record of your cash flow, particularly if you plan to borrow from a bank.

There are rules and regulations in the area of gearing in super. From the outset, it is essential to get the details of borrowing and purchasing the property. Enlisting the help and advice of an experienced, self-managed super advisor can help maximise your chances of gearing successfully. ◆

***The information in this document does not take into account your personal objectives, financial situation or needs and so you should consider its appropriateness having regard to these factors before acting on it. It is important that your personal circumstances are taken into account before making any financial decision and it is recommended that you seek assistance from financial adviser.***

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