Gear up for smooth sailing in your retirement

Although many people have a retirement plan, we're often distracted by day-to-day responsibilities which push this plan down low on our priorities list.

Based on the Association of Superannuation Funds of Australia, you currently need $900,000 in investment assets to retire comfortably. This also assumes that you own your own property and there are no mortgage repayments or rent commitments.

Peter Quinn, Director of Quinn Financial Planning, says people "leave the accumulation of their superannuation assets too late in life. Based on the Australian Institute of Family Studies, the medium age couples get married is 29.6 years for men and 27.7 years for women. From the day they get married to the day they turn 50, a typical couple will concentrate on mortgage payments, buy a bigger home for a growing family and pay weekly living costs. It's not until they turn 50 that they start considering the next item on life's agenda."

> *"People leave the accumulation of their super assets too late in life."*

Quinn, a chartered accountant and certified financial planner, is concerned with the direction of government policy. The May 2012 Budget revealed that for the next two years the concessional contribution limit will be lowered to $25,000pa for over 50s. In 2007 the government allowed over 50s to make tax-deductible contributions of $100,000pa or more. This allowed pre-retirees to contribute more to their super at a time when their children had left home and their mortgage was repaid. However, with the introduction of new government legislation, this contribution has been reduced by 75 per cent for the next two years, at least.

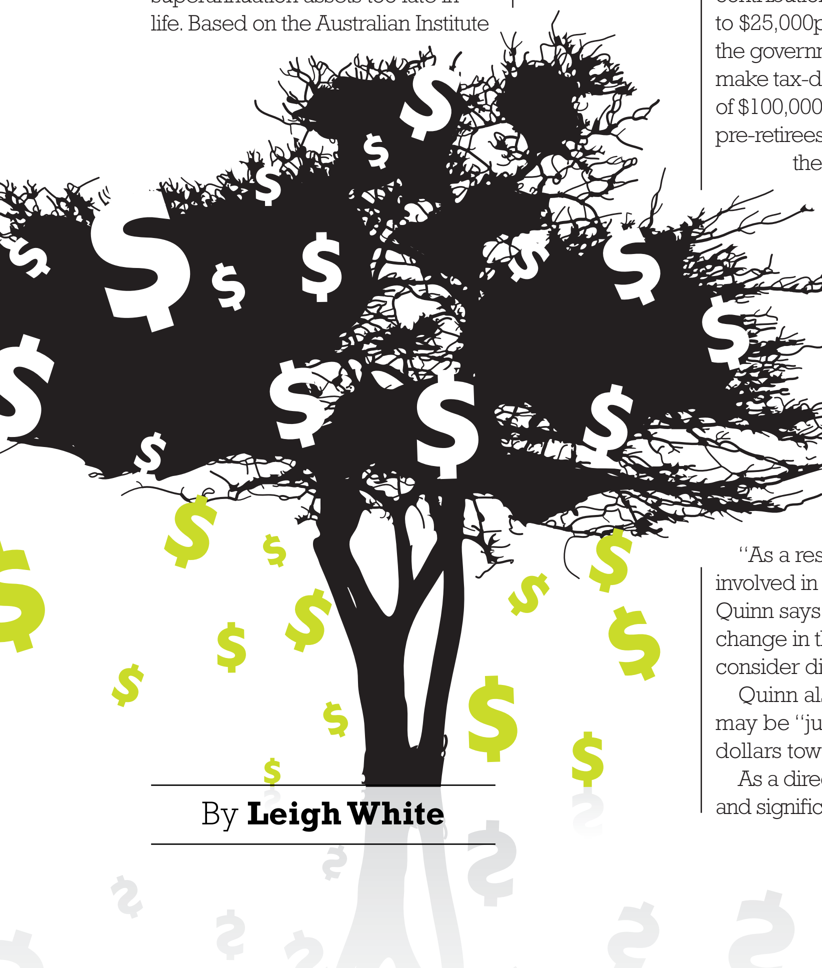
"As a result, we need to get more involved in our super strategy," Quinn says. "With such a significant change in the law, we need to consider different strategies."

Quinn also says that a SMSF may be "just the tool to put those dollars toward the future".

As a direct result of the GFC and significant changes in tax legislation over the past four years, many people are considering taking more control over the investment management of their superannuation and establishing a SMSF. Last December, 2011, the 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. The report indicated a significant shift away from listed trusts, other managed investments and listed shares towards safer asset investments in cash, term deposit and real property.

Australians typically have a love affair with residential property. But many investors are unaware that, as a result of changes to the SIS Act in 2007, it's now possible for people to purchase an investment property with their super. Quinn says that this isn't for everyone, but it is a strategy that's not difficult to implement as many people may think.

Where to from here? Gearing within a SMSF must satisfy the precise requirements of the SIS Act. With the right advice, the strategy is not as complicated as it sounds. Essentially, the property must be held in trust but the loan for the property must be in the superannuation in order to satisfy the key requirements of the SIS Act. The property is purchased using the existing money in your superannuation and you may also need to supplement this money with additional borrowed funds. As of September 2007, the government made gearing possible for SMSFs, meaning you no longer need to have sufficient cash in your fund to purchase a property outright.



By **Leigh White**

If it makes financial sense for your circumstances, super borrowing may be more feasible than you think. Superannuation borrowing is also arguably the fastest-growing area of superannuation investment strategy. Based on meeting specific criteria, most banks will lend up to 70 per cent of a property's value.

For example, let's say you wish to purchase a $550,000 investment property. Then, let's say, you and your spouse have a combined value of $180,000 currently in superannuation. You then set up a custodian trustee to act as the legal owner for the property. The existing cash is supplemented with a limited recourse loan of $370,000. Assume the interest of the loan is 7.5 per cent (or $27,750pa). Tenants will then pay an annual rental amount of $27,500.

Excluding property costs like council rates, body corporate fees, repairs, etc, this property is now neutrally geared. The investor's nine per cent statutory super contribution and annual rent increases can be used to pay down the loan.

In addition, all expenses such as stamp duty, legal fees and conveyancing costs are paid directly by the SMSF. Over time, the asset will grow in value.

Now for some management myth-busting. One of the most common misunderstandings about super is that there are only two ways to manage it – you have someone manage it, or you do it yourself.

Quinn insists this is not so. The most important factor with super is that you get advice in the following:
1. Will we have accumulated enough investment assets for our retirement?
2. To accumulate sufficient assets, can we continue with our quarterly strategy, or do we need to consider a gearing strategy?
3. What assets and investments should we invest in?

''Gearing within an SMSF must satisfy the requirements of the SIS Act.''

Quinn explains: ''My concern is that many people get suitable advice on product [that is, point 3 above], but little or no advice on accumulating sufficient assets [point 1] and strategy [point 2].''

This appears to be the main reason for today's popularity and growth in the area of SMSFs.

Disclaimer: 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 a financial adviser.