

MAKE RETIREMENT SUPER

Peter Quinn



Business owners cannot afford to ignore superannuation.

STORY BY **SIMON SHARWOOD**

Retail spending in Australia during 2011 increased, but did so by just a tiny amount more than the underlying inflation rate. Big retailers returned tepid results and the market spoke eloquently about its view of the sector's future by slashing the share prices of several retail giants.

That kind of market message should also be clear to small retailers, as the many challenges the sector faces means their businesses are likely to achieve a far lower price if they try to sell up.

That's a big worry for small retail businesses whose owners may have expected that cashing out of their business would deliver a wad of cash to sustain them through retirement.

Financial advisors say hoping for a big payday when you decide to exit a business is a very poor retirement savings strategy, and that small business owners should instead invest in superannuation.

"From time to time I meet clients who think that selling their business (say a coffee shop or restaurant) will be enough for their Super," says Peter Quinn, Director of Quinn Financial Planning.

"They might be a sole trader who doesn't have to put nine per cent super contributions aside by law, and instead of putting money aside they decide to invest money in their business. They plan to invest in the business and grow the asset at a greater rate than

what a super fund will grow. I say that if you can achieve this, it would be a correct strategy for topping up super later down the track."

But Quinn also warns that your retirement may not coincide with a good time to sell.



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Retailers looking to sell today, for example, won't do well. Anyone trying to sell a business in the lending drought caused by the GFC would also have struggled to sell at a good price.

Chris Magnus, a Financial Advisor at Ark Total Wealth, says relying on your business

to deliver a lump sum that will fund your retirement is a poor strategy.

"A lot of small business owners tend to consider their business as their equivalent of Superannuation and also their wealth accumulation strategy. But that is concentrating risk in one place," he says. "It is important to diversify assets and Superannuation fits in to ensure that your assets are diversified."

Chris Jansen, AMP's Director, Contemporary Wealth Management, says business owners should start to think about Superannuation at the same time they start to plan their business.

"The importance of a financial plan for setting up the business and getting out of it are vital," he says. "Small business people think about customers, location, staff and other matters, but often put their own needs on the back burner. I think the business plan should detail what your business wants to be and also how it will contribute to your personal financial future."

"And once you have that plan, you need to revisit that plan to make sure it is on track."

Super tactics

Planning a superannuation strategy involves very personal choices. It's easy to simply pay money into a fund and hope that the managers do a good job.

A slightly more sensible approach involves making sure that your chosen Super

EARN-OUTS

Another Super tactic to consider is an earn-out, an alternative to a sale that sees you find a buyer for your business who will pay you instalments.

Earn-outs are a favoured idea because when you sell a business, clients often leave or the new owner struggles with the nuances of the business. In an earn-out, you stay in your business for a while – often a few years – and receive regular payments from the new owner rather than a lump sum. Those regular payments could each fall below the threshold (currently \$50,000) for tax-deductible Super contributions.

Instead of selling up, retiring and relying solely on Super for income, an earn-out could see you retire, start to draw on your Super but also keep topping it up at the same time as your buyer makes progressive payments towards full ownership of your business.

fund is a good performer. Finding rankings of Super funds is easy if you spend a few minutes on Google. If your fund is a dud, rolling over to a better-performing fund needs an evening of paperwork and is well worth doing – improved returns of even half a per cent make a big difference over the life of your super fund.

Many funds also offer their members the chance to select from a wide range of investments. Some of the funds which offer investment choices let you go online and assign portions of your super to different investments. Choices can include ethical investments, cash vehicles or investments

in specific industries. Each category of investment should have a detailed profile, so you can understand the likely returns and spread your Super account among investments that offer the mix of growth and constant returns that build wealth. This kind of super account means you need to spend more time managing your affairs, but again better returns are on offer to activist investors.

Another option available to business owners is a Self Managed Super Fund (SMSF). Despite the name, SMSFs don't mean you have to manage a fund all by yourself – it's possible to establish

a SMSF and have it administered by a financial advisor or accountant.

The benefit of an SMSF is that you're not dependent on an anonymous fund manager's choice of assets – you can decide where to invest your Super.

You can also, as a small business owner, choose to invest in premises for your business.

"Business pays rent back to the super fund," explains Chris Magnus.

You gain the security that comes with knowing your landlord won't turf you out or jack up the rent suddenly or unreasonably, and a tenant who wants to do the right thing by the owner! Magnus points out that your SMSF must charge market rents to your business.

The upside is a chance to cash in on capital growth in the property you buy and occupy. Your SMSF can even borrow to acquire the property and while the tax treatment for that arrangement is not as favourable as it is for individuals who gear into property, the sums can still look very attractive. **mb**

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