Looking at Superannuation…

When superannuation was reformed by Paul Keating back in 1992 it seemed quite simple; employers made compulsory contributions to super which could be augmented by further contributions. If a person had insufficient funds in their super, they would be means-tested and could probably receive a government funded age pension.

Nowadays, the subject is complex and the advents of "Simpler Super" have instead further complicated matters. The purpose is still the same; to get Australians to fund their own retirement. However, there are traps and penalties for doing it too well!

According to the Association of Superannuation Funds of Australia (ASFA), superannuation assets as at September 2016 totalled $2,146 billion, with the lion's share being invested via Industry Funds.

Overview

Type of fund	Total assets ($billion)	No. of funds	No. of accts (June 15)
Corporate	56	31	0.3 million
Industry	482	41	11.3 million
Public sector	355	38	3.5 million
Retail	559	139	13.8 million
Funds with less than 5 members	638	583,924	1.1 million
Balance of statutory funds	56		
Total	**2,146**		**30.0 million**

Source: APRA Statistics – September quarter 2016 and APRA annual statistics for no. of accounts

ASFA noted that assets in My Super products rose 13.6% year-on-year, whilst accrued default amounts, mainly to the retail funds fell from 51.9bn to 39.6bn or about 24%. Notably contributions to funds with "more than four members" were $103 bn and very similar to the previous year's tally of $104.6bn. It seems, from the ASFA data, that most contributions are employer based, comprising Superannuation Guarantee or salary sacrifice. Personal Contributions are falling and this is a key concern. Many people do not want to contribute more than absolutely necessary because of the constantly shifting regulatory goal posts. If Australians are to provide for themselves in retirement, there must be a sense of guarantee or certainty in this area.

The following changes are part of the latest regulatory shift that takes effect from **1 July 2017**.

What can you contribute?

- $100,000 from after-tax income, down from $180,000; and
- $25,000 from before-tax income, down from $30,000 for under 55s and $35,000 for over 55s.

There are some poison pills worth watching out for

- You may not contribute more than $1.6m from after-tax earnings; and
- If you earn between $250,000 and $300,000 you will now pay 30% tax.

In terms of importance; the most important issue is contributing to Super. The next is how to invest. As a Specialist Financial Planner, my preferred area is direct shares and many smaller, probably Self-Managed Super Funds (SMSFs) appear to have the same bias, with Australian listed shares the largest asset exposure in the table below.

Asset allocation (funds with more than four members)

Asset class	Amount ($billion)	%
Cash	179	13
Australian fixed interest	192	13
International fixed interest	107	8
Australian listed shares	327	23
Listed property	51	4
Unlisted property	73	5
International shares	312	22
Infrastructure	69	5
Hedge funds	26	2
Unlisted equity	61	4
Other	30	2
Total	**1,429**	**100**

Source: APRA September quarter 2016.

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A superannuant's goals should determine their asset allocation, but many people are invested in 'one-size-fits-all' funds implying a level of inappropriateness. However, a SMSF is not necessarily the answer either. Indeed, many SMSFs these days have a core holding of Listed Investment Companies with smaller holdings providing the "tweaks" of dividend income and franking or growth potential.

There are many ways to provide for yourself in retirement. Getting good advice is just the beginning… ~~Look out for more information in the coming weeks.~~

Gail Gadd is a member of Lifespan Financial Planning Pty Ltd (AFSL: 229892). She has her own SMSF. Please note that no advice has been provided or implied.