Still plenty of time to save for retirement

TIM BLUE

OH to have a spare million or two to pop into super. I don't, as it happens. But if I did, I would whack it into super, as it is still the best way known to man to cut tax.

Cheer up: for those of us without a lazy million dollars at our fingertips before June 30, there is no need to panic and no need for an asset fire sale.

The rules that apply after June 30 are not all that onerous and still deliver a good outcome.

Anyone in their mid-50s can still put up to $450,000 away in a three-year period, then do it all again in the next three years and in the three years after that.

And you can put away another $100,000 a year if you are aged 50 or more and claim a tax deduction for it. There's a five-year time limit on this, as it closes off on June 30, 2012. For the under-50s now, and everyone after the cut-off date, the cap is $50,000 a year.

Say you are 55, then putting away the most you can from here — $450,000 every three years, plus the deductible maximum — will deliver close to $2 million in a decade. And that's a limit per person: a couple can each do it.

Here's the deal. You lower your salary as much as possible by salary sacrificing into super, which means your super goes up and your tax — and tax rate — goes down.

To keep the wolf from the door, you start a transition-to-retirement pension from existing super to fill the income gap left by salary sacrificing.

And since the cash flow is coming from super, it has fantastic tax breaks: way less tax than you are probably paying now if aged between 55 and 60, and falling to nil if you have turned 60.

The other big win, according to Macquarie Private Wealth manager Jenny Andrews, is that earnings on the money you move into the transition-to-retirement pension are taxed at nil per cent, versus the 15 per cent on super that's still in the accumulation phase — in a regular super fund.

Adelaide-based financial strategist Theo Marinis explains it this way: "From July 1, 2007, Mr and Mrs Smith — both recently turned 55 — can each put away $450,000.

"So if they started at age 55, they can put three bites of $450,000 every three years. By this time they are 65, and thinking seriously of retiring, and will have amassed a substantial sum in super.

"They might have shares worth several million, but why sell it and wear the big capital gain, when they can space it out over time?"

Meanwhile, our couple has started a transition-to-retirement pension, to give them an income that fills the gap left in their household income by directing much of their salaries into super.

These pensions have a few wrinkles: a lump sum withdrawal is possible only in certain circumstances, such as when retiring permanently.

Nor as a rule are they commutable — that is, the balance may not be changed back to a lump sum and withdrawn.

On the other hand, investment earnings (including capital gains) in the new transition-to-retirement pensions are tax free — only money received regularly as a super pension is taxable, and then eligible for a 15 per cent tax offset (or reduction) if you are under 60, and of course is tax free if you are over 60.

There is some fine print to be aware of in salary sacrificing. Sure it can lower your taxable income and even open up your eligibility to the government's co-contribution deal, but check whether you will cut yourself out of any non-salary benefits offered by the boss.

Some employers may say that since your income has fallen, so will their compulsory superannuation payment, in line with your salary.

A variation on this theme is that leave loadings are cut and perhaps redundancy payments.

Your reply is to point out that SG payments should be calculated and paid according to a base salary, which will not have changed.

Another one to watch is whether your payment to super will be deemed effective by the tax office. To be acceptable, any salary sacrifice must be based on future earnings. This applies especially to bonuses: you and the boss must have agreed on the salary-sacrifice arrangements before knowing what your bonus might be.

Zurich head of technical services Jennifer Brookhouse suggests you get the agreement in writing, to ensure there are no tears down the track.

"Ask that a time frame be included in the agreement, ideally to coincide with salary periods, as current legislation imposes no requirement on the employer about when payments need to be made."

Incidentally, you could have had a million dollars in super if you had started years ago. The power of time and compounding work miracles.

If you or your children have not started a super account, open one now, and pick up the government's $1500 bonus offered in the budget.

This applies equally to a spouse. There's no rule that says you can't start a super account when you are over 50.

Even a part-time worker whose income is not substantial will be eligible for a government co-contribution.

And one half of a couple can contribute to the other's super as a way to build it, and claim a tax deduction for doing so, in what's called a spouse contribution rebate.

THINGS TO DO

- Check for lost super. VirginSuper suggests up to $10 billion in lost super is sitting in various funds as a result of people changing jobs.
- Collect the Government's co-contribution payment on super, of $1.50 for every dollar of yours. It phases out at $58,000 a year income.
- Salary sacrifice wherever possible to increase super and cut tax.
- If self-employed, claim every dollar paid into a super fund as a tax deduction.
- Think about life in retirement and how you will ease into it financially.
- Run a super account for each partner in a couple to make the most of benefits and tax breaks.
- Know your fund managers in super, and how they are performing.
- After July 1, put gains from new tax rates into super.

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