

\$\$ MONEY MATTERS \$\$

One of the certainties of life is that changes will affect us (for better or worse!) as time goes on. There are changes to superannuation coming that we should be aware of and, in some cases, its complexity may mean that the services of a financial adviser should be sought. If you feel that this is the case, how do you go about choosing one? If you have an adviser, fine, but if not then you will need to choose one as the first step in order to get personal advice given your particular circumstances.

If you have a previous 2000 edition of *Camaraderie* (not sure which one) where I wrote on ‘*Who Can You Trust?*’ which covered my thoughts on selecting an adviser but, assuming most readers will not have it handy, I will summarise the contents. I always like to start this process by emphasising the importance of having a working knowledge of the basic principles of investing. If you don’t, then start reading, attending seminars and the like. You must understand that every decision you make will probably cost you money one way or the other, so you should ensure that the advice you are acting on is logical and makes sense. If you can’t understand it, then walk away.

Perhaps the best way of choosing an adviser is to ask your friends, colleagues and perhaps your accountant who they use. If you get a strong recommendation, then try them. If you can’t relate to the adviser, or don’t trust them to act in your interest, then try again.

You do need to be aware of the linkages and personal interests your potential adviser may have. For example, if you go to a bank or insurance company adviser then don’t be surprised if they offer products from their employer. If they can offer other options then that is fine. Generally speaking (but not always) the greater the size and prestige of the firm then the better chance you have of ‘compensation’ if things go wrong. Just make sure that the adviser is an employee of the firm and not part of a ‘badged’ franchise. This safety aspect needs to be balanced against the more personal service that may be delivered by a small local firm.

A strong message is that you shouldn’t arrive for the initial interview cold. Do as much homework as you are able. It is your money. You are taking the risk and you are going to pay for the advice, directly or indirectly. Your livelihood depends on the outcome. Make sure that you understand why a certain action is being recommended before you leave the office. Don’t wait for the written advice to arrive because you will be overwhelmed by paper, not all of which will be relevant to your case.

Much advice is centred on saving tax. If my adviser put this high on the list of objectives then, as regular readers will remember, I would give him the sack. It is fine to seek the ‘best after tax return’ but not to start out with the objective of saving tax. One of my objectives is to pay \$1m of tax each year!

What are the changes we are expecting to see for the 1st of July (not yet legislated)? The first is that payouts from a **funded** (or taxed) superannuation fund will be tax free if you are over 60 at that time. This is good news. If a person elects to take an allocated pension from such a fund then that will also be tax free. In addition, there will be opportunities to make undeducted or concessional contributions into super. For those with a lot of cash they can make such contributions (if appropriate) of up to \$1m before June 30th 2007. Thereafter, if under 65 you will be able to make concessional contributions of up to \$150,000 pa (or a total of \$450,000 over a three year period). If aged 65 to 74 yrs you will be able to make concessional contributions of up to \$150,000 if you satisfy the work test. I think the key issue here is that this may make sense for some but not for everyone. Be careful if you have to convert assets to cash because there may be significant capital gains to pay if you have held the assets for a while.

If you are thinking of making a large concessional contribution to super before June 30 this year, make sure you understand why you are doing it. There are many rules that apply to superannuation funds and there is a loss of flexibility as well as the costs involved. The favourable tax treatment can be tantalising. Remember though that you can have about \$2m invested in the share market producing say \$70,000 of franked dividends and pay no income tax (unless you have a pension from an unfunded scheme!) except for the

Medicare levy. If married then your spouse could have the same amount invested. It is a complex matter and so much for 'simplified super'.

There are also changes proposed to the way public sector pensions (such as CSS and DFRDB which were untaxed schemes) are treated for income tax purposes from 1 July 2007. Tax will be assessed in the normal way then reduced by an offset equal to a 10% tax rebate (ie 10% of the taxable component of the public sector pension that you receive in the income year). Comparatively, against those receiving pensions from funded schemes, we who receive DFRDB pensions will be worse off (as their pensions will be tax free and therefore they will only pay tax on other income whereas our other income goes on top of the DFRDB pension to be taxed).

There is also to be a relaxing of the assets test for those receiving age pensions from 20 September 2007. The pension reduction for every \$1000 in assets over the relevant threshold will only be \$1.50 per fortnight (instead of \$3). From the same date the 50% assets test exemption for 'complying' income streams will be removed.

This change does not apply to those 'complying' income streams purchased before this date.

There are some websites that might be handy. The Treasury site has a section on 'simple super' with fact sheets that might prove useful. Of course there are plenty of commercial sites (stockbrokers, financial planners and so on) that also have the 'recipe' you need to follow to take advantage of the changes. Not everyone will have to take action as changes to the taxation of DFRDB pensions will I suspect just happen.

Finally, I reiterate that you should try and get yourself up to speed as much as you can. If you feel that you need help because of your circumstances then try and find an adviser who can explain the issues carefully and make any action proposed sound logical, understandable and relevant to your situation.

I would like to thank Eleanor Menzies of Macquarie Bank in Canberra who read my draft article and made sensible suggestions.

*Haydn Daw is a retired Naval Officer (1986),
who then had a second career in stock broking
as a Client Advisor that concluded in 1999*