

Pollies vote for safety on super policy



Noel Whittaker

With election hype intensifying, the steady approach on super savings by both parties is good news for retirees.

AS the election looms more and more emails are asking what the position will be with superannuation under both Labor and Liberal.

I am not tipping any big changes no matter who gets in, because both major parties appear to have their attention elsewhere at the moment.

But it may be useful to look back on what Labor promised three years ago, and also to think about the Coalition reaction to the proposed changes in the Cooper review.

In 2007 Labor promised to introduce a universal forecasting system so that projected benefits would be realistic. At date of writing, the legislative framework has been put in place to do this, and ASIC is in the final stages of setting out requirements to be met for providing forecasts in member statements from July 1, 2010.

The problem is that forecasting is extremely complicated and even ASIC's own "conservative limits" range from 5.5 per cent a year to 11.5 per cent a year for growth investments, and to 3.5 per cent to 7.5 per cent for capital guaranteed.

To make matters worse, industry opinion is divided as to whether final-benefit projections should include entitlement to the aged pension.

Labor promised to fix the rorting by unscrupulous employers who use salary-sacrificed contributions as an excuse to get out of the employer compulsory 9 per cent contribution (SG). Unfortunately, this is still in the too hard basket, and there are suggestions that it may be difficult to legislate as SG is based on salary and wages,

and for tax reasons many employees don't want the status of salary-sacrificed contributions changed.

Now that the Reportable Employer Superannuation Contributions (RESC) regime is in place, the simple solution may be to base SG on salary and wages plus RESC payments. Don't hold your breath.

Three years ago I wrote: "The compulsory superannuation system is essential but an irritation is the number of tiny lost accounts it creates – at date of writing 5.7 million of them with total balances of \$9.8 billion... Labor is promising to introduce a system where all such lost accounts would be transferred to one central account and filed according to tax file number. Whenever the Tax Office receives notification of a current superannuation account, the lost balance would automatically be transferred to it."

There has been a little progress. Inactive account balances of less than \$200 may now be refunded to the member and lost accounts with a balance of less than \$200 are to be transferred to the ATO. Lost-account balances of any size, where the fund believes it will never be able to pay out the balance are to be transferred to the ATO. In effect, Labor has made the ATO the "central account".

To its credit, Labor has left the tax concessional state of super untouched, and even relaxed the laws so that those aged 50 and over will be able to continue to make concessional contributions of up to \$50,000 when the present transitional rules expire in June 2012 provided

their balance is less than \$500,000.

The Coalition has promised to announce some "modest" policies before the election but at date of writing those policies are not yet available. However, it claims to be approaching superannuation with the view "that competition and engagement must be encouraged... to help close the savings gap".

It is not averse to most of the recommendations in the Cooper review and is particularly supportive of its SuperStream proposals. This includes new standards to improve the quality of data provided by employers, the use of tax file numbers, and technology to approve processing efficiency.

The good news is that the Coalition has promised to consult with industry before taking on any of the Cooper recommendations because it feels it would be "imprudent to announce game-changing policies in a \$1.2 trillion sector" without consultation.

In short, it looks like it will be steady as she goes after the election. Let's take comfort in the fact that our superannuation system is still the envy of the developed world. Where else can you invest with pre-tax dollars and enjoy a tax-free retirement when you retire?

Noel Whittaker is a director of Whittaker Macnaught Pty Ltd. His advice is general in nature and readers should seek their own professional advice before making any financial decisions. His email is noel.whittaker@whittakermacnaught.com.au



Q I have read several of your books and it appears that the only way to pay a home loan off quicker is to pay more payments or get a lower interest rate. I realise paying fortnightly payments reduces the term of the loan and cuts the interest I pay because I end up making more payments per year. My question is if I opt for weekly payments does it cut down my interest even more because I am paying more frequently and interest is calculated daily, so every week interest would be calculated on a lesser amount than if I paid monthly?

A The reason fortnightly payments work so well in reducing the term is because there are 26 fortnights and 12 calendar months. For example, if you were paying \$2000 a month and changed that to \$1000 a fortnight, you would have increased your payments from \$24,000 a year to \$26,000 a year. Paying weekly may save a little interest but the

savings would be very small bickies in the scheme of things.

Q I recently bought a unit in North Queensland using the first home owner's grant. I have been talking to a good friend of mine who is building at the moment and not that keen on selling the place he lives in and so is looking at renting it out. The first question I have is for how long do I have to live in my unit before I can move out and get someone in to rent it? The second question is because I used the first home owner's grant to purchase my property, am I able to make the unit an investment property and claim the interest on my tax?

A You need to live in the unit for six months to retain your eligibility for the grant. Once you have fulfilled that condition you can move and rent the unit and claim all tax concessions available to the

owner of a rental property. You can also be absent from the property for six years without losing the CGT status providing you don't claim any other property as your principal residence during that period.

Q I am on a disability pension (so is my wife), and my mother is thinking of selling her property and may possibly give me \$200,000. Will that affect both our disability pensions?

A Obviously, an increase in assets of \$200,000 will affect your Centrelink benefits, but the extent of the reduction will depend on your other assets. It may also be possible to reduce the effect a little by gifting \$10,000 and by buying funeral bonds. Your adviser will be able to do the calculations for you.

Send your questions to noel.whittaker@whittakermacnaught.com.au

Banks jack up profits with monopoly leverage

By JOHN COLLETT

THE Commonwealth Bank announced its record \$6.1 billion profit for the financial year last week: its cash net profit up 42 per cent on the previous financial year. CBA's is just the latest of the big four banks to announce massive profits – and they come courtesy of their dominant position and at the cost of consumers.

As the deputy director of progressive think tank The Australia Institute, Josh Fear, says, the big banks have massive advantages of incumbency and size. "Those two things bring all sorts of competitive advantage over the smaller players like credit unions and the smaller banks," he says.



Fear is the co-author of a paper by the institute, *Money and Power – the Case for Better Regulation of Banking*, which argues for tighter regulations to rein in the banks.

The big banks are too aggressive in pushing debt offers, often unsolicited, to consumers.

"A lot of those smaller players are not willing to resort to the tactics of the big banks," Fear says.

The paper argues that deregulation of the banking sector in the mid-'80s, rather than fostering competition as had been hoped by policymakers, has had the opposite effect. Deregulation has reduced competition among the big players. The paper says that the underlying profit of the big four banks now equates to almost 3 per cent of the gross national product of Australia.

To put that another way, for each \$100 spent in Australia, nearly \$3 ends up as underlying profit for the

banks. Twenty years ago the big-four profits were only 1 per cent of gross domestic product. The big banks are declaring underlying annual profits of about \$35 billion, of which the institute estimates about \$20 billion "represents the rewards reaped as a result of their monopoly position".

That monopoly position became further entrenched during the global financial crisis. The Australian Competition and Consumer Commission, determined to ensure the continued health of the banks during the biggest global downturn in 70 years, approved the sale of St George to Westpac and BankWest to the CBA.

The banks argue they are rewarding their shareholders and

just about everyone else through superannuation funds' holdings of bank shares – and pay billions in tax each year. But the institute's paper likens the \$20 billion it calls "monopoly profits" to a \$20 billion tax on the economy, hurting all Australians.

It is calling for regulations to stop banks raising interest rates above the official cash rate, cap certain bank fees and restrict the interest rate on unsecured credit.

The competition commission is deciding whether to allow the sale of AXA Asia Pacific Holdings to the National Australia Bank. AMP is waiting with an offer to buy AXA if the sale is blocked. Bulking up AMP with AXA would increase the banking competition. SMH