

Little nibbles can add up to a big bite



Noel Whittaker

Incremental changes to superannuation rules will not help lower national debt.

MUCH has been made about the insignificance of our government debt when compared to other countries. After all, why would you be worried when our debt is "only" 7 per cent of GDP – many other countries have more than 10 times that number.

But it is a fact of life that debt creates interest, and the federal government debt of more than \$100 billion means the government has to find close to \$5 billion a year just to pay its interest bill.

Governments can only find money by borrowing, which increases interest still more, or by cutting services, raising taxes or reducing concessions.

The government's Mid-Year Economic and Fiscal Outlook released last month gives a good indication of how they intend to approach it, and the consequences that will flow as a result.

Low-income earners took the first hit, with drastic changes to the superannuation co-contribution program.

The Howard-Costello government introduced the scheme to encourage low income earners to save – initially the government made a co-contribution of \$1500 if the employee made a personal non-concessional contribution of \$1000.

Subsequently, in budget after budget, the Labor government has watered down the scheme by reducing the amount of the contribution and by freezing the cut-off points.

For the current tax year, the

co-contribution is \$1 for every \$1 of personal superannuation contributions with a maximum co-contribution of \$1000 for contributors whose assessable income for the current financial year is \$31,920 or less. As income rises the co-contribution reduces by \$33 for each \$1000 of additional income, until it cuts out at \$61,920 a year.

Under the latest changes,

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the co-contribution matching rate will be reduced from 100 per cent to 50 per cent in July 2012, with a maximum co-contribution of \$500. This means eligibility will cut out for people on adjusted taxable incomes of \$46,920 or more.

Next was a further attack on superannuation. In abolishing Reasonable Benefit Limits (RBLs) the Howard government capped deductible contributions at \$50,000 a year for the under 50s and \$100,000 for those 50 and over.

On gaining power Labor halved these caps to \$25,000 and \$50,000 but promised the \$25,000 cap would be indexed so that contributions could keep pace with inflation. In the interest of simplicity the number was to change only in \$5000 increments.

This meant they would notionally increase the amount each year by the

indexation number but would leave it at \$25,000 until indexation took it up to \$30,000. They have now paused indexation until July 2014, which means the cap will stay at \$25,000 for the present.

If their attitude to the 50 per cent discount on interest income up to \$1000 a year is any indication, indexation may be paused well past 2014. The interest discount was supposed to start in July 2011, was subsequently deferred until July 2012, and has now been put back to 2013.

Other measures include deferring the introduction of the standard tax deduction for work-related expenses, phasing out the dependant spouse tax offset, and amending the tax exemptions that apply to living-away-from-home allowances. Granted, these are fairly small measures in themselves but, being small, they are going to have a minuscule effect on government expenditure.

It makes me think of the famous quote by Edna St Vincent Millay: "It's not love's going hurts my days, but that it went in little ways".

We can expect many more "little changes" in the coming year.

Noel Whittaker is a co-founder 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 noelwhit@gmail.com



Q All the advice I see concerning changing superannuation funds if you feel yours is not performing well is aimed at working contributors and constantly emphasises the "long term". But what if you are retired, like me, and drawing a monthly income from an allocated pension administered by a once-outstanding fund that has suddenly been placed on the "worst performers" list? Do I stick with it or do I transfer to another fund?

A You need to discuss in depth with your adviser why the fund has suddenly performed badly.

For example, it may have underperformed the All Ordinaries Index because it was a defensive fund and was heavily weighted towards cash. If, after this discussion, you are convinced that a switch needs to be made, you need to also consider the Centrelink implications. This will not be an issue if you merely switch funds and stay with the same provider, but would be relevant if you were changing from one platform to another. I note your comments about taking a long-term view but just keep in mind that you probably will live to at least 85.

The road may be longer than you think.

Q If after the age of 60 I have two part-time jobs, one of which I have had for 20 years, and I resign from the other job that I have had for a much shorter period of time, would this satisfy the requirement to trigger a condition of release – and hence allow me to access a lump sum payment from my super fund? I would like to continue with the other part-time job.

A Yes, all you need to do is resign from a job – it need not be your main job.

Nearby postcode tops national loan risk

By SIMON JOHANSON

FEWER Australians are defaulting on their mortgage payments despite the continued global economic uncertainty.

The proportion of home owners failing to pay their loan instalments on time fell across the country in September, down nearly a quarter since March, the latest Fitch Ratings report on residential mortgages shows.

But with households spending big for Christmas, there is a risk defaults may rise again early next year, despite consumers' current obsession with reducing debt.

The improvement in borrowers' ability to pay back loans was largely

due to the Reserve Bank keeping interest rates stable, Fitch said. Recent cuts in rates twice in as many months would further help borrowers.

At least 1.42 per cent of borrowers failed to pay their mortgage within 30 days in September compared with March highs of 1.77 per cent.

"Those regions which have shown strong sensitivity to mortgage rates due to socio-economic factors and which were affected most in March 2011 by Christmas spending and increased interest rates have benefited most from stable cash rates," Fitch's finance director James Zaneni said.

Even in parts of the country where mortgage delinquency rates are highest, like Fairfield and Liverpool, in Sydney, and Queensland, fewer borrowers had

Nelson Bay was the worst-performing postcode by loan amount, recording a delinquency ratio of 7.8 per cent.

fallen into arrears, the report said.

Victoria was home to the country's most prudent borrowers. Households in Melbourne's middle-northern region, places like Eltham and Research, were the most

reliable debtors overall, with only 0.54 per cent in arrears.

But blue-chip Brighton East had among the worst borrowers in the state.

"Sydney's south-western suburbs and the central coast, the Gold Coast in Queensland and the south-west region of West Australia continue to experience above-average arrears," Mr Zaneni said.

Sydney suburbs such as Kirrawee, Sutherland and Grays Point had some of the lowest mortgage default rates in the country. Queensland was still the worst-performing state because of a series of natural disasters, last

year's Christmas spending and socio-economic factors, Fitch said.

Nelson Bay was the worst-performing postcode by loan amount, recording a delinquency ratio of 7.8 per cent. It was also the second worst-performing postcode by number of people in arrears, with 31 out of every 1000 failing to repay.

Other poor performers included Budgewoi, Casuarina in WA and Helensvale in Queensland.

"Fitch has also noticed that an increasing number of the 20 worst-performing suburbs in Australia are located in 'tourism destinations' such as Airlie Beach, Noosa Heads, Surfers Paradise and Nelson Bay," the report said. SMH