EDGE SPECIALIST ADVICE NETWORK

NON-SUPERANNUATION INVESTMENTS

A HOST OF LEGISLATIVE CHANGES HAVE OVERHAULT THE SUPERANNUATION SYSTEM, BUT INVESTORS SHOULDN'T DISPAIR

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AUSTRALIA'S $2 TRILLION-PLUS SUPER INDUSTRY IS THE ENVY OF THE WORLD BUT MANY PEOPLE APPROACHING OR SAVING FOR RETIREMENT ARE NOW BEING FORCED TO CONSIDER DIFFERENT WAYS TO GROW THEIR NEST EGG.

From 1st July 2017, the government wound back a host of generous tax concessions. Those changes include an approximate 16% cut to annual concessional contribution caps (including employer contributions) and a hefty 44% cut to annual non- concessional contribution caps (including non-tax deductible personal contributions).

The days of drawing an unlimited tax- free pension income in retirement are also set to end for some retirees with the introduction of a $1.6 million balance cap.

Savings above that threshold will be liable for tax from 01/07/2017 for the first time in a decade.

While super should remain a core component of Australians' retirement plans, a number of people will clearly need to look further afield to build the type of retirement they want.

Fortunately, there are a number of non- super options that can also generate attractive income and investment returns

Lifetime ordinary annuities:

POWERING TAX-EFFECTIVE RETIREMENT SAVINGS BEYOND $1.6 MILLION

Retirees who hold more than $1.6 million in existing pension or annuity assets have two choices from 01/07/2017: they can withdraw those funds from super (where returns are taxed at an investor's marginal rate) or move them back into the accumulation phase of their fund (where earnings are taxed at 15%).

However, if a retiree still wants to generate tax-efficient income from assets above the threshold, then lifetime annuities invested using personal savings can play an important new role. Lifetime annuities provide retirees with regular payments regardless of how long they live or how markets perform. The level of 'deductible amount' (the capital component) which reduces the assessable income payments depends on several factors.

Let's take a hypothetical male, John, who retires at age 65. He purchases a lifetime income annuity for $100,000 that generates annual income of $5,402. In this case, the deductible amount of income is equal to the purchase price ($100,000) divided by John's remaining life expectancy of 19.22 years.

The deductible amount of annuities can also be impacted by commutations (lump sum withdrawals) and the residual capital value (the amount received back at the end of an investment, such as a term annuity). In John's case, both of these figures were equal to zero.

John's tax-deductible amount is $5,202, which is very close to the $5,402 annual income that the annuity produces. In practical terms, the bulk of the income produced by his lifetime annuity (barring $200) is tax-free. While the value of the lifetime annuity does form part of the asset test for social security, it reduces over time, falling to zero when John reaches his life expectancy of 84.

Many retirees welcome the income certainty offered by lifetime annuities but remain concerned about a trade-off in flexibility.
However, a multi-layered retirement solution that employs a number of strategies can effectively balance such competing interests.

New product features, such as the Death Benefit Guarantee attached to certain providers Lifetime Income Annuity products, also enable investors to leave an inheritance if they die earlier than expected. This reduces another potential uncertainty that is a concern for many retirees.

Investment Bonds:

A TAX-EFFICIENT OPTION WHEN SUPER SAVINGS MAX OUT

Investors become acutely aware of risk around the time of retirement. Investment market volatility and the potential impact of a prolonged downturn, as well as the chance of outliving retirement savings, are genuine concerns.

The recent suite of super changes also highlights regulatory risk. The changes don’t just affect future plans – the $1.6 million cap also applies retrospectively to anyone who has saved above that threshold.

Investment bonds potentially offer a tax-effective structure outside of super that can also help diversify this type of regulatory risk.

It can be a particularly tax-effective option for higher-income investors who may have reached the new $1.6 million super threshold or who want to invest more than the new $25,000 concessional contribution cap and the $100,000 non-concessional contribution cap.

This can easily happen as older Australians build their retirement portfolio by funneling assets (such as an inheritance or sale of a small business) into their super.

An investment bond is taxed at just 30% and, if an investor contributes up to 125% of their initial investment annually over the 10-year period, they receive further tax concessions. These can include no personal income tax on withdrawal, as well as no penalty tax rates for children and tax-free death payment to nominated beneficiaries.

Investment bonds are also flexible. Some Bonds have a death benefit guarantee that can provide certainty around the minimum amount that will be paid on the death of the last surviving lfie insured. While holding the bond over the full 10 years offers the maximum tax benefit.

Investors who withdraw early may also receive a tax offset for the tax already paid within the bond.

These benefits are a key reason why Investment Growth Bonds and products such as lifetime annuities will help to boost living standards in retirement. It's a crucial goal given Australia's ageing population potentially faces decades in retirement. Male life expectancy from birth is now 91.5 years and female life expectancy is 93.5 years,

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