

Take control of your super

Current market turmoil may have distracted or unnerved some people, wondering if their retirement savings will be significantly eroded, but for many the market volatility will just be part of their wealth management strategy. How people react and what action they should take will depend on their age, how close they are to retirement and where their superannuation is invested.

Younger people, who generally have plenty of time will generally stay the course and remain fully invested in the market, perhaps investing more. But for people closer to retirement or already living off their superannuation, the impact of declining share markets is more serious.

While the vast majority of retirees or pre-retirees generally “bite-the-bullet” and take the longer-term view, others look to protect their retirement portfolios in the shorter-term.

One alternative to ‘cashing-up’ or shifting everything towards a more cautious portfolio of investments would be to gradually set-aside the amount an annuitant expects to withdraw over the next few years in a cash or conservative based fund (within their existing super fund). Drawing down from a ‘cash’ component would allow the remaining funds to remain in growth-oriented investments.

But regardless of age, it is critical that the current sharemarket turmoil does not discourage savers from putting their super affairs in order. Failure to do so will mean less money for retirement and, unlike financial markets and economics, a person’s super affairs is something that can be controlled.

The superannuation environment is now so appealing that the government has put in place contribution caps, which if breached can be extremely onerous. Gone are the days when you get to June and sold an investment

property or shares and dumped it into the more tax effective superannuation. These days, you need to plan your contributions well before June 30.

Initiatives such as the co-contribution scheme and salary sacrificing arrangements may also require some early planning, as would the redrafting of a self-managed fund trust deed. The list goes on, underlining the fact that superannuation is no longer a set-and-forget retirement strategy.

Key super changes introduced last July...

- > Superannuation benefits paid from a taxed fund are tax free for people aged 60 and over.
- > Age based limits have been replaced with new contribution rules.
- > Self employed can now claim a full deduction for contributions to superannuation (up to the contribution caps).
- > The government co-contribution scheme has been extended to the self-employed.
- > Greater flexibility relating to drawdowns on superannuation in retirement.

Superannuation checklist...

- > **Salary Sacrificing:** Arranging to put more of your pretax earnings into your super account can reduce your assessable income and enable you to accumulate wealth in a tax effective environment.
- > **Co-contribution:** The government contributes \$1.50 for each \$1 contributed, up to a maximum of

\$1,500 per year. To fully benefit, your assessable income must be less than \$28,980.

> **Tax file number:** If your super fund does not have your tax file number, your contributions will be taxed at the top marginal tax rate rather than 15%.

> **Self-employed:** Self-employed people under the age of 75 are able to claim a 100% deduction on the first \$50,000 of contributions (or \$100,000 if they are aged 50 or more, until 2012).

> **Self-managed funds:** If you are a trustee of a self-managed fund, make sure you understand your legal responsibilities.

News Update

Commodities strengthen wages and spending:

The Reserve Bank (RBA) says high global commodities prices are continuing to boost incomes and spending in Australia. In its latest quarterly statement on monetary policy released today, the RBA said rural commodity prices had picked up over the past year, and that base metals prices, while having fallen from their mid-2007 peaks, were relatively high.

Conditions in coal and iron ore markets had tightened further, prompting most analysts to revise up their forecasts for prices of those commodities in the year ahead. "Based on these developments, the prospects are that Australia's terms of trade will rise further this year, after the sharp increases already seen over the past four years," the RBA said.

"The performance of the Australian economy has to date remained robust". Consumer demand has been driven by rapid growth in household incomes, which in turn has reflected rising employment and real wages as well as cuts in income taxes," the RBA said.

Interest rates: Households may be griping over the latest round of interest rate rises, but the RBA says we are generally coping well with the rising cost of borrowing. It also says households are saving more of their incomes - at the highest rate in seven years.

Just as well, as the RBA are indicating that home owners could face two more interest rate rises now that our core inflation rate has moved beyond the bank's 'comfortable' target range.

Interestingly, the impact of last year's interest rate rises are starting to bite into the housing market, new ABS figures suggest. While the total number of housing loans rose 0.1 per cent in December, construction of new homes fell 2.1 per cent and the value of investment housing loans fell 3.0 per cent.

Going forward, the RBA is forecasting underlying and CPI inflation to decline gradually in 2009, to around 3.25% per cent, before falling to 3% in 2010.

BHP/Rio Tinto: Takeover target Rio Tinto Ltd has issued a letter to shareholders advising them to take no action over BHP Billiton Ltd's \$US147.40 billion (\$A164.79 billion) bid.

The letter, being sent to Rio's shareholders today states that the boards of Rio "have given careful consideration to BHP Billiton's pre-conditional offers and have concluded they still significantly undervalue Rio Tinto".

"Accordingly, the Boards have unanimously rejected BHP Billiton's pre-conditional offers as not in the best interests of shareholders," it said. Rio said BHP's offer, while improved, still fails to recognise the underlying value of Rio's assets and prospects.

"Our plans are unchanged, and will remain so unless a proposal is made that fully reflects the value of Rio Tinto.

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