FUNDAMENTALLY SPEAKING

A simple explanation of the finance terms we all hear about but don't really understand

with ***Rowan Jones***

Making the most of ABP's tax benefits

If you've retired and are drawing money out of your super fund, chances are you've established an account-based pension.

An ABP is generally started when you transfer your super fund from accumulation phase to pension phase. This transfer is usually quite seamless. For example, if you have a self-managed super fund, the move to an ABP is simply an administrative action fulfilled by your fund's accountant.

The attraction of an ABP is that your super fund will pay no tax on its investment earnings, whereas in accumulation phase the tax rate is 15 per cent. In addition, the pension payments you draw are also tax-free post age 60.

To commence an ABP you need to have attained your preservation age as well as meet a condition of release. Your preservation age is the age at which you can access your super, while a condition of release is the formal list of rules, of which you must satisfy at least one, in order to access your super.

Once you commence an ABP you're required to draw a minimum pension payment each year.

This minimum amount is based on your age and account balance at July 1 each year. If you're aged between 56 and 64 you are required to withdraw 4 per cent of your member balance. There is also no requirement to withdraw this amount as a 'regular' payment, many elect to take one annual lump sum. There's also no maximum amount you can draw.

An ABP is not to be confused with a transition to retirement income stream. The main difference being you can commence a TRIS without meeting a full condition of release. But you can only access up to 10 per cent of your member balance each year.

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Illustration: Don Lindsay

Real McCoy worth dough

Wayne Leggett

It would be foolhardy to try to justify the retention of a regime that resulted in owners of financial products being charged fees for services that were not, ultimately, provided.

That said, introducing a law that outlaws contractual terms that were allowable at the time the contract was entered into would be seen by any reasonable person as grossly unfair.

The recent move by the Federal Government to turn off previously grandfathered payments to advisers from financial products bears the hallmarks of American laws that started almost a century ago to prohibit alcohol. The rationale was simple; if some people are abusing a right, remove that right.

The reason Prohibition was short-lived is pretty simple, too.

It didn't take long for the government to work out that it was unfair to impose restrictions on the entire community simply because a few people were incapable of enjoying the privilege responsibly.

You might be of the view that this most recent case of "Ready, fire, aim!" by the Federal Government has little impact other than stopping advisers being paid for doing nothing.

However, the unintended negative consequences of this change are many and varied.

Some of the products paying these "commissions" have no mechanism under which the commission can be refunded into the product.

But it is questionable whether the new law will require that the product provider issues cheques to the customers in question.

Many financial advisers acquired "books" of clients on valuations that included this "grandfathered" remuneration.

In many instances, the valuation secured the borrowing that funded the purchase, while the cashflow they generated helped service the debt.

Is it fair these advisers should lose the asset and the revenue stream, but be left with the debt?

Many of the products which are subject to these arrangements are also the beneficiaries of "grandfathered" treatment by Centrelink & Department of Veterans' Affairs. This usually precludes their replacement by an alternative product that is not paying the now banned grandfathered remuneration.

An adviser may be unable to put the client on a fee-for-service arrangement without triggering adverse impact on the client's social security entitlements.

Rightly or wrongly, many of the owners of these financial products would perceive they could not afford financial advice unless the adviser was being remunerated via the product. Adviser numbers are dwindling after the royal commission and the impending impact of the new Financial Adviser Standards and Ethics Authority requirements.

It is questionable whether the Government is prepared to compound this problem with this latest measure and the departure of even more advisers. The cost of financial advice is moving beyond the reach of those who most need it. These latest changes exacerbate that problem.

The royal commission uncovered unsavoury practices that, rightly, needed to be brought to a halt. However, discontinuing a perfectly legitimate contractual arrangement simply because a tiny minority took advantage is akin to cracking the proverbial nut with a sledgehammer.

It is disturbing to think about the drunkard spending the family grocery money on booze, but I do like to be able to enjoy a glass of wine with friends without breaking the law.

The responsible majority should not be penalised because of the actions of a minority, be it in their beverage choice or way of paying a financial adviser.

Wayne Leggett is a director of Paramount Financial Solutions

Hands off our super increases

Anthony Keane

Young adults, low-income earners — and everyone else — have a clear message for those wanting to fiddle with Australia's retirement saving rules: Leave our super alone.

Amid calls by some politicians to halt the rise of compulsory superannuation and let low-income workers take their super as extra income instead, a new survey suggests employees are savvier than many might think.

Only one-quarter would rather have the money now than in their super, according to the Essential Research survey commissioned by the Australian Institute of Superannuation Trustees.

And just one in 10 disagrees with the government policy to lift compulsory employer super payments from 9.5 per cent of wages to 12 per cent by 2025.

Independent think tank the Grattan Institute is against lifting the super guarantee to 12 per cent, arguing benefits for many low-income workers from bigger super balances would be offset by lower pension payments.

And some Coalition politicians want to limit the contribution increases.

Liberal senator Andrew Bragg wants superannuation to be voluntary for workers earning less than $50,000 and to allow their employer contributions to be refunded.

The Federal Government says it has no plans to change the 12 per cent target.

However, all facets of super are likely to be examined in the retirement income review presently under way.

Australian Institute of Superannuation Trustees chief executive Eva Scheerlinck said the survey suggested a significant number of young workers and low-income earners were worried about having enough money in retirement.

"There is no justification for excluding any worker from benefiting from the 12 per cent super," she said.

"But it is particularly important for people on low incomes, those working part-time or those who have taken time out of paid work as carers."

The age pension currently pays a maximum of $933.40 per fortnight to a single or $1407 a fortnight to a couple.

Ms Scheerlinck said it was "farcical to assume" that workers would get a pay rise if compulsory super rises were frozen.

Wealth on Track principal Steve Greatrex said the idea of stopping super rises so employers could pay higher wages was "impractical".

"The truth is, a lot of employers won't pay them more," he said. "At least if it's in the superannuation system people have rights.

"We are a wealthy country and it's a good way of sharing the wealth around more evenly," he said.

Our super fund fees have been under fire for being among the highest in the world and Mr Greatrex said there was pressure from regulators to cut costs for members. "We read about high-fee funds, but there's a lot of funds out there that are competitive."