

KEEPING IT SIMPLE

Morningstar

Published: 8 September 2011

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The federal government has signaled a more flexible approach to limits on how much can be stashed away in superannuation accounts at the concessional rate of 15 per cent. Superannuation experts just want one thing: simplicity.

"Our preference is for a nice, simple system," says Michael Lorimer, chairman of the Small Independent Superannuation Funds Association.

His comments come after Financial Services Minister Bill Shorten told attendees at a self-managed super fund conference his group organised on Wednesday the federal government had to do "more work" on its proposed changes on limits to how much people over 50 can plough into superannuation at the lower rate.

"I do think it's an area where more work needs to be done, but we haven't got a settled position on it yet," Shorten said at the forum in Sydney. "I'm alive to the issue."

Starting July 2012, the federal government will lower the amount anyone over 50 can pay into superannuation to \$50,000 from \$100,000 if their super balance is less than \$500,000.

While Lorimer cautiously welcomed Shorten's comments, he warns calculating the \$500,000 superannuation balance will be cumbersome and will add complexity to an industry that is working hard to get more Australians engaged.

"It sends a negative message," Lorimer says.

Calculating how much people have saved across multiple funds, whether they've withdrawn money, or determining the appropriate dates when funds should be valued will be tricky. The base universal cap was already cut under Prime Minister Kevin Rudd to \$25,000 from \$50,000 under the Howard government.

"We're pleased to hear some guarded acknowledgement of some of the problems with the proposals," Lorimer says.

At the centre of the issue is how people tend to use money throughout their lives. By the time many of us reach 50 incomes approach their peak, just as the big expenses such as mortgages and school fees taper off.

"Superannuation can still be complex," says Maria Siu, superannuation special counsel at Townsends Business & Corporate Lawyers in Sydney.

"We save money in super when we can after we pay our mortgages." Siu says the bigger issue is what to do when people accidentally pay too much into their superannuation. That can happen if, say, your company has a particularly good year and pays out a bonus at the wrong time. Superannuation guarantee on bonuses may be paid automatically into superannuation, putting you over your threshold.

In a worst-case scenario, Siu says, excess contributions can be taxed at more than 90 per cent. Breaching the cap attracts a tax of 31.5 per cent, plus the ordinary superannuation tax of 15 per cent. What's left over is counted towards the non-concessional cap, which is an additional 45 per cent if this cap is also exceeded.

Siu recommends simply handing excess contributions back, minus an administrative fee.