

# M&CO Newsflash

*"May you live in interesting times", an Old Chinese Curse...*

## **SMSF's are the largest, and now best performing super sector & still more to come...**

APRA's latest Quarterly Superannuation Performance report indicates that, as at the end of December 2008, SMSF's were still the largest sector of Australia's superannuation industry by assets. SMSF's made up 31% of all superannuation assets, followed by retail funds with 28.2%, industry funds with 17.2%, public sector funds with 14.2% and corporate funds with 5%.

How did this happen? Well, it seems that a big part of it is that the average SMSF has been outperforming every other super sector fund during the downturn. On average, SMSF's lost much less than virtually every other fund category (4.8%) during the December 2008 quarter. Retail funds lost over 10%, public sector funds 9% and industry funds 8%.

The trend for people who have sufficient super benefits & a degree of confidence to take ultimate responsibility for their retirement investments, to move these from corporate, industry or even government funds into their own SMSF is likely to further accentuate over the next few years. Why is that?

Because it is anticipated that over the very next few years, for the first time in this nation's history, the number of peoples leaving the workforce will exceed those entering it, with worrying consequences for funds trustees with regard to sustained liquidity requirements a few years ahead, particularly for defined benefits funds. That is increasingly more money flowing out of the funds to pay for retirees' pensions than new contributions coming in from remaining contributing members. This is exactly the same problem as currently experienced in "God's own country", the US of A.

And, just to reinforce this point, according to the Productivity Commission, there is currently 5.25 people in the workforce for every person aged over 65. By 2020, barely a decade away, it's projected this will fall to 3.5 people, and by 2050 to 2.2 people. Considering the implications of this for our economic capacity; it's an increasing social and economic challenge that flows from the aging of the nation. That also means it looks like if our children can certainly forget about the security of old age pension when their turn come.

So, the clear implications are that, as already obvious for industry observers 15-20 years ago, future Australian Governments (along with those of most developed countries) will have to balance increasingly difficult budgets to not only recover from recent "stimulus packages" & other populist largesse's, but also cover the fast increasing cost of social security for a faster-than-ever "graying" of our population. Some commentators have been suggesting that the soon to be 67 pensionable-age will need phasing-out altogether. Would you still be working (probably part-time) in your 70's? Well, this is already happening with greater frequency, particularly among professionals in Japan, which is merely a decade or so ahead of Australia in it's "over 65/under 25" population ratio. Therefore, if you can, do keep salary sacrificing with greater zest than ever, as you will certainly need every penny of it! Also, as our last month's newsflash clearly demonstrated, don't "waist a good crisis". Invest when the market is still relatively low, as now. You may not have such an opportunity again for a long time to come..

If still uncertain about it all, to work out &/or review a practical plan of action, please do call or email us today, before something else gets your attention...

## **Watch out for Superannuation Scams**

The minister for Superannuation and Corporate Law has warned Australian workers to exercise extra care in protecting their superannuation account statements and personal details, in response to NSW Police Force information that a Sydney-based fraud syndicate is using stolen identities to steal from victims' superannuation accounts.

The syndicate has allegedly stolen superannuation statements and used other counterfeit identity documents to operate SMSFs, open bank accounts linked to the fraudulent SMSF, and then arrange for cash to be 'rolled over' from legitimate funds into the fraudulent accounts.

As a rule, people "should seek to protect their superannuation statements and account details from identity fraud by shredding any personal information they want to dispose of," the Minister said.

They should also be cautious about what personal information they provide over the phone and to whom they provide it, and should make a habit of checking their paper-based and online super fund statements to ensure there are no unauthorized transactions.

## Individual tax rates from 01 07 09 for 2009/10 income year

Taxable Income \$	Tax Payable
0- 6,000	Nil
6,001 – 35,000	15% of excess over \$6,000
35,001 – 80,000	4,350 + 30% of excess over \$35,000
80,001 – 180,000	\$17,850 + 38% of excess over \$80,000
180,001 +	\$55,850 + 45% of excess over \$180,000

### Overseas Employment income tax exemption abolished

Currently, certain foreign employment income earned by Australians working overseas for a continuous period of 91 days or more is generally exempt from Australian income tax.

From 1 July 2009, foreign employment income will generally become taxable and taxpayers will be entitled to a foreign income tax offset for foreign tax paid on the foreign employment income.

From that date, the income tax exemption for foreign employment income (under S.23AG of the ITAA 1936) will only apply to income as:

- ✍ An aid or charitable worker employed by a recognized non-government organization;
- ✍ A government aid worker; or
- ✍ A specified government employee such as defense and police force personnel deployed overseas.
- ✍ An individual employed on an overseas project approved by the Minister for Trade as being in the national interest, as provided for by existing rules (i.e., under S.23AF)

### The likely effects of US Long Bonds on the World's Economic recovery:

***"I think the rise in bond yields has the potential to turn nasty"***. Dr Tony Rumble

The BIG issue for 2010 – the big wealth destroyers will be bond funds. Buying bonds directly is hard for most retail investors but hybrids are a great way to enjoy high returns for relatively low risk

"Consider the US Govt has yet to even ramp up its bond issuance to fund the \$1.7 trillion deficit. My belief is that the Chinese, Japanese and Russians are wary of buying anything longer than 5 years. Yes, they are buying US treasuries but only short-term paper where they can be sure of getting their money back and limit any potential losses from falling USD and rising bond yields. Investors are becoming wary of 5, 10 and 30 year paper. Would you invest in US 30 year bonds at 4.6%? Do you think that is a good return for a Country that has public debt approaching 100% of GDP?

The trouble for the US economy is that mortgage rates are tied to the longer dated paper. If these yields continue to rise because no-one wants the paper, then mortgages will rise also. Enter the Fed on its QE crusade to keep long-term bond yields down. Only problem here is that the Fed just buys the bonds with an electronic credit that it creates ie printing money. If the Fed has to do this on a large scale to keep bond yields down then the USD will weaken due to the large currency debasement that is going on by the US Fed monetising US Govt debt. This leads to further problems being rising commodities prices, which are measured in USD, and even less demand for USD denominated assets especially bonds. Hence, bond yields rise because of less demand AND fuel prices rise in the US. Very nasty!

Whichever way the Fed goes, it can't avoid rising bond yields. Do nothing, bond yields rise as bond issuance ramps up massively. Step in and buy bonds, USD falls and foreign demand for US bonds decreases further - the Fed has to step in to buy even more, which weakens the USD even further ...

The only way out of this dilemma is for the US Govt to face up to the fact that it cannot afford to keep racking up debt when it already has \$10 trillion against an economy worth \$14 trillion. It must reduce spending and /or increase taxes at some point soon. Both of which are unpleasant for the US economy and US consumers.

This is why I do not expect a V shaped recovery but a long L shaped flat period, concludes Dr Rumble.

***JDM & Team, Brisbane***

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