

q&a

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Q 1: I understand that from 1 July 2009 there were going to be some changes to the Government co-contribution rules which would make this strategy less attractive. Will this strategy still be useful?

L.P., Florey

A 1: The Government super co-contribution has been a very successful initiative for the last few years, which has helped many people boost their superannuation balances. For the 2008/2009 financial year the rules were:

- 1) A co-contribution would be made where the contributor has total income less than \$60,342 pa
- 2) The maximum co-contribution would be made where the contributor has total income of \$30,342 pa or less (co-contribution gradually reduced for earnings up to \$60,342 pa)
- 3) A co-contribution would be calculated based upon a maximum personal after tax (non-concessional) contribution of \$1,000 pa
- 4) The maximum co-contribution would be 150% (matching rate %) of the personal contribution, ie \$1,500 pa
- 5) For the 2009/2010 year the total income limits will be increased to \$31,920 pa and \$61,920 pa

As announced in the May 2009 Federal Budget, from 1 July 2009 the maximum co-contribution will be reduced for a few years, before gradually increasing back to 150%, based on the following schedule:

- 2009/2010 - Matching Rate 100% - Maximum co-contribution \$1,000
- 2010/2011 - Matching Rate 100% - Maximum co-contribution \$1,000
- 2011/2012 - Matching Rate 100% - Maximum co-contribution \$1,000
- 2012/2013 - Matching Rate 125% - Maximum co-contribution \$1,250
- 2013/2014 - Matching Rate 125% - Maximum co-contribution \$1,250
- 2014/2015 Onwards - Matching Rate 150% - Maximum co-contribution \$1,500

To illustrate the impact the budget changes have on this strategy, investment manager MLC published a simple example for a 40 year old, with total income of \$35,000 pa, investing \$1,000 pa for 20 years in a balanced fund (assumed to be earning 8% pa) and comparing the results:

1. When investing outside of superannuation – no co-contribution - portfolio value \$50,994
2. When investing inside of superannuation under the old rules – first year co-contribution of \$1,346 - portfolio value \$115,204
3. When investing inside of superannuation under the new rules – first year co-contribution of \$897 - portfolio value \$108,660

So, while the value of the co-contribution has certainly been reduced, the overall benefit is still there compared with investing outside of superannuation with the projected benefit still being more than doubled in this example. The main issue to be aware of though is the restricted access to superannuation funds before retirement as any contribution made into superannuation now, and any co-contribution made, will generally not be accessible until after retirement between 55 and 60 depending upon your date of birth.

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