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SuperAdvice

Your Super in 2017

SPECIAL REPORT

December 2016

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The Federal Government has announced a raft of changes to the superannuation system that come into effect next year. Here's what you need to know.

BY TONY KAYE • EUREKA REPORT • 1 DECEMBER 2016

Introduction

Australia's superannuation and pension rules are changing once again from 2017, and this time almost every worker and retiree will be affected to greater and lesser degrees.

In this detailed special report, we explain every change announced and also provide general advice on what steps can be taken beforehand, especially in terms of the more complex changes on the way. It's your essential super guide.

After many months of uncertainty, and behind-the-scenes wrangling, the Federal Government finally managed to push through Parliament on November 24 the final tranche of the superannuation and pension-related changes it first announced on Federal Budget night in early May.

While the Government has watered down some of its earlier proposed changes and abandoned others, including a contentious plan to impose a $500,000 lifetime cap on after-tax contributions, most are now enshrined in federal legislation and will come into effect from the start of the 2017–18 financial year.

They include lower annual pre-tax and after-tax contributions levels, which apply to all workers, the removal of some transition to retirement allowances, and the introduction of a new limit on the amount of funds that can be accumulated and held in a tax-free pension account.

There's also a major change to the assets test applying to Age Pension benefits, which comes into play just a few weeks from now, on January 1, 2017.

The bulk of the changes, however, will take effect from July 1, 2017. That leaves just seven months for those likely to be impacted to get prepared, and some retirees may need to make major decisions in terms of selling or shifting assets to comply.

There's a lot to know, and we recommend you seek out specialist advice from a licensed superannuation advisor as early as possible to discuss how the changes may affect your retirement.

Yours sincerely,

Tony Kaye
Editor, InvestSMART

The steps taken over the next seven months will be crucial for millions of Australians saving for retirement, or already retired.

The big super changes on the way

Hold on to your collective superannuation and pensions hats, because the winds of political change have once again swept across Australia's $2 trillion superannuation industry.

Some, arguably those that are less focused on maximising the opportunities available to save for retirement, may barely feel them. But others, including many already reaping the rewards of the large retirement nest egg they have managed to accumulate over time, could get blown away.

They have the most to lose, as do individuals and couples still working who have the ability to contribute pre-tax and after-tax income into their superannuation up to the full limits allowed under law.

The problem is, the laws are changing yet again. If you don't know what's happening, you could easily get caught out. And with most of the changes coming into effect from July 1, 2017, the window to take action is rapidly closing.

Passed in Federal Parliament in late November, the impending changes amount to the biggest single overhaul of existing superannuation and pension rules in 30 years.

In essence, they will effectively prevent individuals from amassing large fortunes inside their super fund while still employed, which under the current rules can generate an unlimited stream of tax-free pension income in retirement.

The measures being introduced lower the amount of funds that individuals can put into superannuation from their income or other sources, and also reduce what can be held in pension mode. Yet while some of the changes are relatively straightforward, others are highly confusing, even to licensed financial advisors and superannuation professionals.

So here is a detailed run-through of all the new changes on the way, when they will take effect, and what they mean for both those still saving for retirement in accumulation phase, others who are transitioning to retirement, and those who are fully retired.

In the following article, we explain the changes to the Age Pension framework that will make it even more difficult for individuals or couples to build up a retirement nest egg and still claim a government pension contribution.

According to Federal Treasurer Scott Morrison, the intent of the latest rule changes is "to improve the fairness, sustainability, flexibility and integrity of the superannuation system" as part of a broader objective to provide income in retirement to substitute or supplement the Age Pension.

Ironically, in some cases, there will be people who do not qualify for the Age Pension that actually earn less from their retirement interests – due to factors such as low interest rates – than those receiving the full pension.

Lowering the concessional contributions cap

This change has the potential to affect every working Australian making personal superannuation contributions beyond those made by their employer.

The annual maximum level for individuals to make concessionally-taxed contributions into their superannuation at the lower 15 per cent tax rate has been progressively falling for some time, and now that level is being cut even further for everyone.

From July 1, 2017, the annual cap on concessional (before-tax) superannuation contributions will be reduced to $25,000 (currently $30,000 for those aged 49 and under at the end of the previous financial year, and $35,000 for those aged over 50).

A lower concessional contributions rate, of course, is bad news for everyone saving for retirement, especially those in

> **“ A lower concessional contributions rate, of course, is bad news for everyone saving for retirement.**

the latter years of their working life who often have the ability to ramp up their contributions before hitting retirement.

The other side of the coin is that most individuals do not take advantage of the full concessional contributions allowance each year anyway.

Those in a position to do so can still contribute up to the current higher concessional levels before June 30, 2017.

Those aged 49 and under can contribute up to $30,000 in the current financial year at the 15 per cent tax rate.

Those aged between 50 and 65 can contribute up to $35,000 in the current financial year at the 15 per cent tax rate.

Increasing the tax rate for higher income earners

Those earning more than $300,000 currently already pay an additional 15 per cent tax on their concessional superannuation contributions, bringing their rate to 30 per cent.

From July 1, 2017, the higher tax threshold will be lowered to $250,000. Any contributions in excess of the new annual $25,000 concessional contributions cap will be treated as income and taxed at their full marginal tax rate.

Lowering the annual non-concessional superannuation cap

Just like the ever-shrinking annual concessional contributions cap, so too is the Government taking the knife to allowable non-concessional (tax-paid) contributions into super.

From July 1, 2017, the non-concessional contributions cap will be cut to $100,000 from the current $180,000.

Individuals under age 65 will still be eligible to bring forward up to three years of non-concessional contributions ($300,000), down from the current allowance of $540,000.

Transitional arrangements will apply. If an individual has not fully used their non-concessional bring forward allowance before July 1, 2017, the remaining amount will be reassessed on July 1, 2017 to reflect the new annual caps.

Individuals aged between 65 and 74 will be eligible to make annual non-concessional contributions of $100,000 if they meet the work test (that is they work 40 hours within a 30-day period each income year). As per current arrangements, they will not be able to access the three-year bring forward of contributions.

But there is a new major restriction. The Government has now mandated that individuals with a total superannuation balance of $1.6 million or more as at June 30, 2017, will no longer be eligible to make any non-concessional contributions.

Individuals with balances close to $1.6 million will only be able to access the number of years of bring forward to take their balance up to $1.6 million.

As these changes don’t come into effect until next financial year, those able to do so should take advantage of the current $540,000 higher limit under the three-year pull-forward rule, or the $180,000 annual after-tax contributions limit before June 30 next year.

Changes to the transfer balance cap

The magic $1.6 million figure is central to the new superannuation changes, and from July 1, 2017, this will be the maximum level that individuals can have in a pension account earning tax-free income.

Any funds above $1.6 million will either have to be transferred back into a superannuation accumulation account and pay 15 per cent tax on any earnings, or be taken outside of the retirement system altogether.

As an example, for someone with a $1.8 million balance, $200,000 will have to be transferred back into an accumulation account. Any earnings on the $200,000 would be taxed at 15 per cent. On a 5 per cent annual return on $200,000 ($10,000), the earnings would attract taxation of $1500 (currently zero).

The good news is that subsequent earnings on the pension account balances in the retirement phase will not be capped or restricted. But the minimum annual pension drawdown conditions will still apply, starting at 4 per cent of the fund balance.

Transitional arrangements will apply. People already retired with balances above $1.6 million on June 30, 2017 will have six months from July 1, 2017 to bring their retirement phase balances under $1.6 million. The transfer balance cap will be indexed and will grow in line with the Consumer Price Index measure of inflation, meaning the cap will be around $1.7 million in 2020–21.

We discuss this key change in more detail in a separate article, including what steps may need to be taken well before July 1, 2017, to restructure retirement assets currently being held in a tax-free pension account.

> **The magic $1.6 million figure is central to the new superannuation changes.**

Changes to transition to retirement income streams

In a move aimed at closing off a tax loophole, the Government will remove the tax exempt status of income from assets supporting transition to retirement income streams (TRIS), also known as transition to retirement (TTR).

These earnings will now be taxed concessionally at 15 per cent. Individuals will also no longer be allowed to treat certain superannuation income stream payments as a lump sum for tax purposes.

This will help ensure that TRIS are fit for purpose and not used as a tax minimisation strategy.

The tax treatment of income streams in the hands of the individual will not be changed. For most individuals this will mean they are tax-free, or taxed at the individual's marginal tax rate less a 15 per cent offset.

Abolishing the anti-detriment rule

From July 1, 2017, the Government will remove the anti-detriment provision which has allowed superannuation funds to claim a refund of the 15 per cent contributions tax paid during a fund member's lifetime after their death.

An anti-detriment payment is an amount that can be included when a lump sum death benefit is paid to a dependant, such as a spouse or child under the age of 18.

Superannuation funds will no longer be able to claim a tax deduction for anti-detriment payments made to eligible dependants. This change will provide consistent treatment of death benefits across all superannuation funds.

However, lump sum death benefits paid to eligible dependants will continue to be tax-free.

Improving access to concessional contributions

There are also major positives from the latest set of superannuation changes, and this change will be a huge positive for self-employed earners who have been to date severely restricted if they receive more than 10 per cent of their total income from one client.

From July 1, 2017, the Government will allow all individuals under the age of 65, and those aged 65 to 74 who meet the work test, to claim a tax deduction for their personal contributions to eligible superannuation funds up to the standard concessional contributions cap.

Currently, an income tax deduction for personal superannuation contributions is only available to people who earn less than 10 per cent of their income from salary or wages.

This limits the ability for people in certain work arrangements to benefit from concessional contributions to their superannuation. Under the new arrangements, more individuals will be able to make concessional personal contributions up to the annual cap.

Widening the tax exemption net

Also, another positive change is that from July 1, 2017, the Government will extend the tax exemption on earnings in the retirement phase to products such as deferred lifetime annuities and group self-annuitisation products.

Extending the tax exemption to deferred or pooled income stream products will encourage providers to offer a wider range of products.

This will provide more flexibility and choice for retirees and help them to manage consumption and risk in retirement better – particularly longevity risk, to avoid people outliving their savings.

Conclusion

The superannuation changes coming into effect from mid-2017 are likely to affect most working and retired Australians as the Government seeks to reduce what some regard as overly generous tax concessions, especially for those in retirement.

Yet even with further changes giving individuals with balances below $500,000 the ability to make catch-up concessional contributions of up to five years at once coming into effect in 2018, lower annual concessional and non-concessional limits mean many will struggle to build a sizeable superannuation next egg at retirement.

Combined with the low superannuation returns currently being achieved by many, the overall attraction of holding all of one's investment assets inside super is likely to diminish.

That reality already seems to be unfolding.

Data from the Australian Prudential Regulation Authority in November showed total contributions into the super system dropped 1.5 per cent over the year to September, a $1.5 billion drop year-on-year.

In terms of the broader superannuation and retirement assets picture, it's definitely a case of watch this space.

The Age Pension assets goalposts are moving, and those receiving a full or part pension entitlement may get thrashed.

Preparing for a pension pinch

Another major rule change is coming into effect right at the start of 2017 and, indirectly, it's also about superannuation.

But this one will have serious implications for many Australians receiving a full or partial Age Pension who hold too many assets, including super and other investments.

On January 1, 2017, the more than 2.4 million Australians currently receiving the Age Pension will be subject to new assets test thresholds, and industry groups claim this could result in more than 300,000 retirees losing some, or all, of their pension entitlements.

Table 1: The New Assets Test Limits

	HOMEOWNER	NOT A HOMEOWNER
SINGLE	$250,000	$450,000
COUPLE	$375,000	$575,000

Under the changes announced last year, the assets test free zone will be widened for both homeowners and non-homeowners. But once Age Pension-eligible individuals or couples exceed those asset levels, the amount of government pension they receive will be cut more severely.

How much the Age Pension is cut relates to what the Government calls the taper rate.

Currently the taper rate is set at $1.50 per fortnight for every $1000 in assets that is held by individuals or couples above the set assets test limits. That will double to $3 a fortnight for every $1000 of assets over the assets threshold. This brings the taper rate back to the level it was under the Howard government.

Table 1 shows how much an individual or couple can have in assets before their Age Pension is cut, with homeowners having a lower asset threshold than non-homeowners.

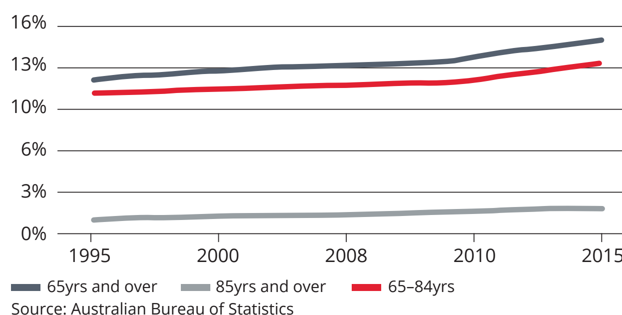
So for example, an individual homeowner can have $250,000 in assets outside their property and still receive the full Age Pension.

The pension assets test does not apply to the family home itself, but does to its contents and any other assets owned including property, vehicles, caravans, boats, superannuation holdings and funds in bank accounts.

Estimates in the 2015 Federal Budget showed that the Age Pension accounted for $41.6 billion in government payments in 2014–15, rising to $44.2 billion in 2015–16, and to $46.2 billion in 2016–17.

This corresponds with data from the Australian Bureau of Statistics estimating that the number of people eligible for the Age Pension will jump from 15 per cent of the population now to 16.1 per cent by 2020.

Chart 1: Proportion of population aged 65 yrs and over



Source: Australian Bureau of Statistics

Average superannuation balances at retirement will put many Australians close to or over the asset test thresholds. But one of the biggest problems for those in this position is that their own retirement savings may generate less tax-free income than the Age Pension.

> **“The changes to the assets test could deter individuals and couples from putting money into their superannuation.**

On current Age Pension rates, a single person will receive $22,804.60 per annum. A couple will receive $17,191.20 each. A couple with $850,000 of personal assets outside their home would not be eligible for any Age Pension, but based on a 4 per cent annual return they would need that amount saved to generate the same level of income.

As such, the changes to the assets test could deter individuals and couples from putting money into their superannuation, as even a couple can only hold $375,000 in retirement savings collectively ($175,000 each) before their Age Pension entitlement begins to reduce.

The changes may also lead to people moving around their financial assets so they can receive the pension, including directing more money into their tax-exempt family home.

There are various strategies to reduce your assets, but the secret is to maintain your standard of living using current income sources.

Financial modelling by global financial consultants Mercer and the Australian Institute of Superannuation Trustees shows the pension test changes will result in the overall level of Government support for individuals on average incomes during their working lifetime dropping by up to 40 per cent.

According to their calculations, those on average incomes receive about $300,000 in government support between the ages of 20 and 67, factoring in compulsory superannuation payments at lower tax rates.

At the same time, the top 10 per cent of wage earners receive double the level of government financial support (between $500,000 and $600,000) because they generally have the financial capacity to deposit more money into superannuation at concessionally taxed rates of 15 per cent through salary sacrifice arrangements.

Conclusion

In effect, while low-income earners will most likely get the full Age Pension as a matter of course, and high-income earners would have too many assets to be entitled to any pension anyway, those in the middle income bands will be most impacted.

This a complex area, and it’s definitely worth seeing a financial advisor to assess your position before January 1, 2017.

The Federal Government is introducing a lifetime cap on how much individuals can have in a tax-free pension account.

The new tax-free retirement rules

Up until now, those in the fortunate position to do so could have amassed millions of dollars within their superannuation account and, at retirement, switched it all into a pension account where the earnings are completely tax-free for life.

That's all set to change from mid-2017 as the Federal Government's sweeping new superannuation and retirement reforms come into effect.

From July 1, 2017, the maximum amount that individuals reaching retirement age will be able to transfer into a pension account will be $1.6 million. A couple will be able to hold double that amount in pension mode, $3.2 million, and still draw down tax-free income.

But any excess funds will need to be transferred back into a superannuation accumulation account where the earnings will be taxed at 15 per cent.

Transitional arrangements will apply for those above $1.6 million but below $1.7 million – the Australian Taxation Office will issue a warning letter advising the individual they have six months from July 1, 2017 to remedy the breach.

The Government states that limiting the amount that can be transferred into a tax-free retirement account "will make the superannuation system more fiscally sustainable and increase confidence that the settings are consistent with the objective of superannuation".

Like the Age Pension, the cap will index in line with the Consumer Price Index. The transfer balance cap will increase in $100,000 increments.

A proportionate method which measures the percentage of the cap previously utilised will determine how much cap space an individual has available at any single point in time.

For example, if an individual has previously used up 75 per cent of their cap they will have access to 25 per cent of the current (indexed) cap. Subsequent fluctuations in retirement accounts due to earnings growth or pension payments will not be considered when calculating cap space.

If an individual transfers $800,000 into a retirement phase account, they will have utilised 50 per cent of the cap space. If the cap is later indexed to, for example, $1.7 million, they will be able to transfer an additional 50 per cent of the indexed cap, being $850,000.

Potential strategies before July 1

The new so-called transfer-to-pension cap means that anyone with more than $1.6 million in their pension account will need to transfer assets out before July 1 next year or pay a tax penalty.

Individuals with a pension fund that currently totals more than $1.6 million may want to consider resetting the cost base of the assets in their pension fund to reduce capital gains tax.

As an example, an individual may have sold their business and property assets some time ago and, under previous superannuation laws, transferred the bulk of that into their accumulation account.

The assets had an original cost base of $2 million, and when they were transferred into a pension account at retirement in 2010 they were worth $4 million. Now, through capital growth over the last six years, the assets in the pension fund are worth $6 million.

Under the new laws, the individual will need to transfer $4.4 million back from their pension account into superannuation

> **Anyone with more than $1.6 million in their pension account will need to transfer assets out before July 1 next year or pay a tax penalty.**

before July 1 to reduce their fund balance to the maximum allowable level of $1.6 million. If the assets in super are later sold, they will trigger a large capital gains tax bill based on the original cost base.

However, if all the assets currently in the pension fund are turned over in the current tax-free environment before June 30 next year, this will reset the cost base at $6 million, thereby dramatically increasing the cost base and lowering future potential capital gains.

While this will incur trading fees, the net result is likely to be far more beneficial than a high capital gains tax bill.

Evening-up your super balances

Couples in or nearing retirement would be wise to consider evening up their account balances before the new transfer-to-pension cap comes into play.

For example, where one partner has a large fund balance of $2.5 million, and the other has a lower balance of $400,000, there will be an issue once the new $1.6 million cap takes effect.

After July 1 next year, the spouse with the larger balance will have to transfer back $900,000 from their pension account to super to fit under the cap and start paying tax (at 10–15 per cent) on income and gains on that $900,000.

Moving concessional contributions from a high balance spouse to a low-balance spouse will be very important. Subject to the annual contribution cap limits ($35,000 currently, and $25,000 from July 1, 2017), excess amounts withdrawn could be contributed to a spouse's account.

Conclusion

According to the Government, the new pension cap will only affect a small proportion of people in retirement – it estimates about 1 per cent of all retirees, based on the average balance for a 60 year-old is expected to be $240,000 in 2017-18.

In practice, however, it will affect many more Australians because having a cap on the amount that can be held in a pension account will probably deter many over time from putting all of their retirement savings into superannuation, including business sale proceeds.

For some it may make more sense to stay below the pension cap, channel more into their family home, and use other strategies to minimise tax.

Those in retirement holding more than $1.6 million in assets, including real property, have a limited time window to act before July 1, 2017.

The inside story on property and super

Self-managed superannuation fund trustees will need to carefully think through the ramifications of the Government's announced superannuation and pension cap changes, particularly when it comes to owning property in their fund.

What's clear from the changes is that, as stated in the previous article, no individual can hold assets worth more than $1.6 million in their pension account from July 1, 2017. That includes direct property, or any other asset – in other words, not just cash or shares.

For those with property in their pension fund worth more than $1.6 million, the issues become complicated because real property is not something that can be quickly sold, or easily carved up.

Here are a few scenarios that SMSF property owners should be considering right now, especially those who may potentially consider selling their property to get around the incoming changes.

The new super property landscape

It's important to realise that for those still in superannuation accumulation phase, there is no change. One can still buy a property outright in their super fund or take out a limited recourse borrowing arrangement through an SMSF to gear into a property.

What will change is the retirement equation. One of the main attractions of building a large asset base in super, of course, has been the completely (unlimited) tax-free pension phase.

But from 1 July next year, any assets worth more than the pension cap amount will have to be transferred back into accumulation.

A common strategy for SMSFs owned by small business owners has been for the fund to own the commercial property out of which the business operates. It's perfectly legal, and these arrangements have often come about by transferring the property asset, which was owned outside of super, into a super fund using non-concessional contributions.

This will be much harder now given that the current $180,000 annual limit (and $540,000 three-year pull forward limit) is to be replaced with a $100,000 annual limit (or a $300,000 three-year pull-forward limit). These amounts can be doubled for a couple.

Many properties were often part-contributed via non-concessional contributions to the fund, but then also part-loaned into the fund. Those loans were then forgiven, via further non-concessional contributions, over a number of years to reduce the loan balance.

The same strategy will still be allowed, but under the new limits the non-concessional contributions numbers allowed are much lower. For some, it may therefore make sense to transfer a commercial property into super before June 30, 2017.

Selling up property prior to transfer back to super

A major consideration for many will be when a property that is likely to have to be transferred back to super has considerable capital gains.

If the property is an asset that is likely to be retained, fully, in the pension fund, while other assets (in excess of the $1.6 million cap) are transferred back to accumulation, then it will retain its tax-free status.

> **“ As an illiquid asset, property will be one of the harder areas to navigate and a lot will depend on one’s individual circumstances.**

However, if it’s likely that a property, with a significant capital gain, will have to be transferred from pension back to super, trustees will need to ascertain whether it makes better financial sense to sell the property and transfer cash back instead to the accumulation account. (Potentially then buying a new investment property.)

Avoiding a tax trap

If a property is transferred back into super it will retain its original cost base. Let’s assume the property was initially bought in super for $300,000 and is now worth $1 million and held in a pension fund.

If the property is transferred back into an accumulation account and later needs to be sold, then there will be a large taxable gain.

On the other hand, if the property is sold in the pension fund before June 30, 2017, then there is not likely to be any capital gains tax to pay. The real cost of this strategy would be the stamp duty on any new property plus the sales costs on selling the first property.

Partial transfers of property back to super

Another situation many will face will be where a pension fund exceeds the $1.6 million cap and includes a property as an individual asset.

SMSF trustees in this situation will need to assess all of the assets in their super fund, consider their current risk profile and then calculate what income and what growth is likely from each asset.

As an example, a pension fund has $2 million in total assets including a property valued at $800,000. The fund trustees decide to keep the other assets in the pension account and to transfer half of the property value ($400,000) into a super accumulation account, leaving the pension fund with $1.6 million and the super fund with half a property.

Any earnings from the part of the property held in the super account would be taxed at 15 per cent.

If down the track the property had doubled in price to $1.6 million and was sold, then half of the proceeds would be tax-free in the pension fund while the other half in the accumulation fund would be taxed.

Accumulating super through geared property

Those aiming to build a large super fund balance might well have been considering geared property as part of that strategy.

Gearing can work very well, particularly for those who have time and understand the risks. Under the new rules, it’s still fine to gear into property.

Any income from positive gearing will be taxed at 15 per cent, and any capital gain taxed at 10 per cent. That’s still usually going to be better than holding the same investment outside of super.

There’s also the benefit of being able to help a lower-earning spouse build his or her balance via geared property, if it’s appropriate for the both of you.

Any negative gearing in the early years of the property can still help absorb income and contribution taxes in the SMSF. That is, if a property is negatively geared to the tune of $20,000 a year and you make contributions of $25,000 a year, then you will only pay contributions tax (15 per cent) on the net difference of $5000 (plus tax on additional income the fund has earned).

Conclusion

As an illiquid asset, property will be one of the harder areas to navigate and a lot will depend on one’s individual circumstances.

For some, the best course of action to get around the new $1.6 million pension cap may be to sell. Others may decide to keep it in their pension fund and use the income generated as their tax-free stream, while others may move to transfer it into an accumulation account and pay 15 per cent on any earnings.

A good course of action should be to see a licensed advisor so there’s sufficient time to take any action required.

The lower concessional contributions limit that will take effect from mid next year means those with insurance inside their superannuation may want to reconsider their options.

The fresh insurance sting

Having your life insurance and total and permanent disability (TPD) cover inside your superannuation fund has always been advantageous on a tax level, with the premiums deducted from pre-tax contributions into the fund. But that advantage may not be so evident under the new super rules.

The reason? Because, if you have considerable insurance requirements and are also using your maximum annual non-concessional contributions allowance, the incoming lower contribution limits will erode more of the super fund being used to pay your insurance premiums.

Moving outside of super

To maximise your super, it might make far more sense to pay for insurances outside of superannuation.

Instead of getting a 15 per cent tax deduction for the premiums inside super, perhaps take the insurance coverage (or move your existing insurance covers) outside of super.

This won't be the best option for everyone. But the number who should consider doing so will rise exponentially following on from the nearly 30 per cent drop in the maximum contributions level, which apply to everyone from July 1, 2017.

From then, as previously outlined, everyone will have the same $25,000 maximum super contributions limit for concessional contributions. This is a reduction from the current limits of $35,000 for the over-50s, and $30,000 for the under-50s.

For example, on a larger insurance policy costing $5000 in premiums per annum, the cost is equivalent to 20 per cent of the $25,000 of concessional contributions allowed. The cost of $2 million worth of life cover for a 55-year-old male, non-smoking, white collar worker, is approximately $7000 a year. For $2 million worth of life and TPD insurance, it's nearly $15,000 a year.

However, what if any action you take will depend on your personal circumstances. But for a tax deduction of 15 per cent of the premium on your policy, it may make sense to preserve more of your superannuation balance and take the insurance policy outside of super.

The drawback is that, for life and TPD insurances, there are no tax deductions for the premiums when taken in your personal name.

How do you take a policy outside of super?

If you make the assessment that you need, or should, transfer or reorganise your insurances to being owned outside of super, there are two main ways of doing this.

The first way is to simply take out new insurances outside of your SMSF (if you have your insurances inside an APRA-regulated fund, it is the same principle).

This can be a good opportunity to re-examine the level of cover that you have and decide whether you need less (or more) than you currently have, and re-apply for that insurance in your personal names.

If you are considering doing this, make sure that you apply for, and receive, insurance on terms that are acceptable to you before you cancel your existing insurance policies.

One advantage to doing this includes being able to change supplier (if your existing insurer has become expensive,

> **"To maximise your super, it might make far more sense to pay for insurances outside of superannuation.**

or their insurance terms are less competitive). The main downside is that if your health has deteriorated since taking out the policy, you might not be able to get it on the same favourable terms and there could be health exclusions.

Transferring policy ownership

If your health has deteriorated, or the cost of your policy would increase by taking out a new policy, then you might also wish to examine transferring your existing policy (inside your SMSF or APRA-regulated fund) from being owned by the super fund trustee to your own name.

This usually means requesting from the trustee of your existing fund a transfer of ownership. If this is an SMSF, you would think that this would be a reasonably simple request, but there are complications. If it is coming from an APRA-regulated fund, there are complications also. And in most cases, it actually will not be allowed by the insurer.

If your health has deteriorated since you last took out insurance, a financial advisor will know where the best options are at keeping equivalent insurance. You can do this yourself, but generally insurance is a very specialised field.

Conclusion

The incoming superannuation changes open up a raft of issues for those still accumulating superannuation and for those in retirement mode.

This special report has outlined the biggest of the announced changes, and some of the steps that should be considered for those most likely to be affected.

What is still clear is that all of those still working and saving for retirement should try and maximise the allowances in place to deposit extra funds into superannuation at the 15 per cent concessional tax rate. This can be done through normal salary sacrifice arrangements with an employer, and over one's working life still create a sizeable retirement fund.

Yet how big that retirement fund should be is the big question for many. The Government still wants more people to be self-sufficient in retirement, and will make it harder and harder for many Australians to access the Age Pension.

As such, we can all expect more changes to the superannuation system over time.

While this report has provided a comprehensive overview of the latest changes, for specialist advice you should consult a licensed financial advisor.