Informed

WINTER 2023 EDITION

Government's proposed changes to the taxation of super

The Government has announced its intention to change the tax concessions for certain super accounts if you have a total super balance of more than $3 million. Whilst it's just a proposal at this time, you may be wondering if it could apply to you and how it may impact your retirement plans.

What is proposed to change?

Currently, investment earnings within the accumulation phase of super are taxed at a maximum rate of 15%. It's proposed that an additional tax of 15% will apply on a portion of account earnings if your 'total super balance' (TSB) exceeds $3 million. If your TSB is less than $3 million, this change will not impact you and investment earnings on your accumulation balance will continue to be taxed at the maximum rate of 15%.

What is 'total super balance'?

Generally, your TSB is the sum of all amounts you have in the super system (certain exceptions apply). At a high level, it includes:

- your accumulation account balances
- your super pension accounts, and
- the outstanding balance of a Limited Recourse Borrowing Arrangement (if you have a Self-Managed Super Fund which has borrowed to invest), in certain circumstances.

Exceptions and modifications may apply. Calculating TSB can be complex, so it's important to seek advice.

When will this change start?

At this stage, this is only a proposal. Based on the information released by the Government, it's currently intended that this change will commence on 1 July 2025. The first notices for the additional tax liability will be sent in the 2026/27 financial year. Legislation will need to pass to implement the proposal and some of the details may change.

Should I change my retirement savings strategy and is super still worthwhile?

For now, it's best to be aware of the possible change and wait for the final legislation and details before considering the best option for your circumstances. The most appropriate option can be different for everyone and may even change as your personal circumstances change.

If your TSB is above $3 million, super may still offer concessional tax rates on earnings when compared to your marginal rate of tax, which could be as high as 47%. There are other potential benefits to super, aside from what for many is a concessional rate of tax on earnings.

Please contact your Financial Adviser if you'd like more information about how this proposal could apply to you if it does become law, and to ensure the strategies you put in place are right for you.

In this issue

When markets twist and turn, flex your fixed income

Investors are grappling with a number of market and economic issues at present, including high inflation, geopolitical risks, banking sector worries, and heightened uncertainty over the path of monetary policy.

These dynamics are challenging to navigate in portfolios, but the good news is fixed income has come a long way. The pain of 2022 has reset bond yields to their most attractive levels in many years. That means for investors there's not only the potential to earn higher income from bond investing, but also a margin of safety to help protect investors should interest rates rise again.

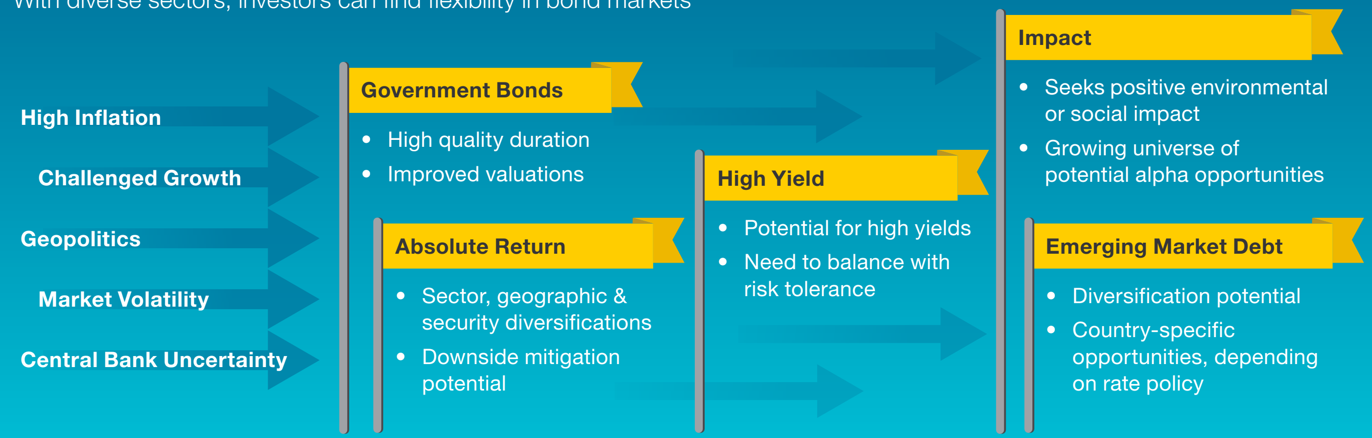
A key pressure point for investors during 2022 was that the rise in bond yields coincided with stock markets selling off. This goes against the traditional tendency for fixed income to be a diversifying asset class that typically performs well when equity markets decline. Inflation has been the main driver of this, but that is showing signs of cooling. That together with a material slowdown in growth could help bonds potentially reassert themselves this year as a useful diversification tool for riskier assets. Also, with bond yields now at meaningfully higher levels, they simply have more room to rally should economic slowdown fears or a market shock put major selling pressure on risk assets.

Why Fixed Income?

With diverse sectors, fixed income markets offer solutions that can help support investors with a range of goals and risk tolerances. A key appeal of fixed income investing is that there are opportunities for defence and offence. The asset class is more fragmented than others. What drives one sector of the market is different than what drives another, so there's often a wide dispersion among sector returns. This provides investors with the flexibility to find a sector and/or combination of sectors that can suit their particular needs — whether that's generating consistent income, defence against equity market volatility, or, in some instances, capital appreciation.

Fixed Income Approaches in a Changing Market Climate

With diverse sectors, investors can find flexibility in bond markets



As of February 28, 2023.

Source: T. Rowe Price analysis. For illustrative purposes only. This is not to be construed as investment advice or a recommendation to buy or sell any security. Investments involve risks, including possible loss of principal. Diversification cannot assure a profit or protect against loss in a declining market.

Market Dynamics Demand Deep Research

Market dynamics have changed, and this may be unsettling for investors. But while the landscape is different, the need for fixed income as part of a diversified investment portfolio remains the same. Investors continue to seek ways to balance the need for both income and portfolio stability during these more uncertain times.

Want to fight climate change? New research details which actions have the most impact

The most common actions Australians are taking to reduce their carbon footprint include recycling paper, plastics and glass and drying their clothes on a line or rack instead of using a dryer, but a new whitepaper published by Australian Ethical has found installing solar panels on your home, switching to a green energy plan and switching your superannuation to an ethical fund are the three actions that have the most impact.

'A Little Goes a Long Way: How to Reduce Your Carbon Footprint' includes research from the UTS Business School of Research that measures and ranks the most effective actions individuals can take to fight climate change, and Lonergan Research provides insights on Australians' attitudes towards climate change and actions they are already taking.

The UTS research found that the top five ways to reduce your carbon footprint are installing solar panels, switching to a renewable energy plan, switching your super to an ethical fund, living car free and switching to a hybrid or electric car.

Switching your superannuation over to an ethical or responsible fund was the third most effective way to reduce emissions, but one that most consumers had not considered – with only two in five Australians saying they were an investor, despite almost 90 percent having their retirement savings invested in a superannuation fund.

Switching super or investments to an ethical option makes it harder and more expensive for those companies that are not aligned to the Paris Agreement to access capital or insurance, and acts as a powerful signalling mechanism when collective action is taken.

"The research tells us that many Australians care about climate change, so much so that 96 percent of them are taking action to reduce their carbon footprint," says Australian Ethical's Chief Customer Officer, Maria Loyez.

"But many people are not sure about the amount of CO2e emissions generated through various everyday actions, and the vast majority are unaware that investing their superannuation in an ethical fund can have a big impact by directing money away from companies that are contributing to climate change."

Australians on average produce a staggering 15.4 tonnes of CO2e per person each year, which is among the highest in the world, and more than seven times the two tonnes of CO2e per person we need to reach in order to prevent catastrophic carbon change.

"Our footprint is influenced by heavy reliance on coal-generated power, low EV car penetration, and our food choices, with our beef consumption the second highest globally, just behind Argentina," said Ms Loyez.

"We punch well above our weight as individuals when it comes to CO2e emissions, and we really hope that this information will help people realise what small changes they can make in their own lives to fight climate change."

Want to learn more?

Download the www.australianethical.com.au/low-carbon-fund/full report and discover how your individual actions can contribute to lowering carbon emissions and lead to transformative change. The results may surprise you.

Important Information

Report: www.australianethical.com.au/low-carbon-fund/

Top-ranked countries to grow old in

With an aging population and growing aged care needs, what are the best countries to grow old in? And where does Australia rank?

Based on a 2023 report using a combination of factors – life expectancy, health care index score, World Happiness Report Score and Safety Index Score – the best place to grow old is… Switzerland.*

Switzerland is closely followed by Finland, Denmark, the Netherlands, Taiwan, Japan, Austria and Iceland.

In case you're wondering, Australia came in 16th on the list, while New Zealand is in 23rd place.

Given 90 countries were analysed, it seems we're in a pretty good place – with room for improvement.

* https://lottie.org/care-guides/which-country-has-the-best-elderly-care/

Thinking ahead? Let's talk about strategies for creating a positive financial future.

Important information:

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