

**For immediate release**  
**2 April 2009**



## **Gearing into super may drive your dollar further**

Imagine superannuation as an ideal retirement destination offering a lifestyle free of financial worry and rich in peace of mind.

Having given up work, you've finally been able to settle comfortably into this place of your dreams for which you've been saving for years.

But for those who have not yet actually retired into this idyllic place called superannuation, how many people recognise it as a tax advantaged solution or a destination that allows them to maximise the value of earnings while they are still working.

Superannuation is not only an investment in your future, it is also an effective super tax strategy today.

The reality, of course, is that for most people superannuation contributions are made by the employer through a corporate scheme, or as part of award requirements through an industry scheme. Either way, the employee does not make any active choices, (though they should be doing so), and they simply allow the employer's contributions to go into a nominated scheme flowing to its default investment strategy. (again something they should review and decide on with the assistance of a qualified and trusted Adviser)

In both cases, there are taxation benefits particularly by directing any surplus income into your superannuation fund by way of salary sacrifice. Doing so provides the advantage of the concessional tax rate of 15 per cent.

Then, there is the satisfaction of knowing that at the end of your working career there will be a nest egg, although not necessarily big enough to maintain the lifestyle to which to aspire.

For those able to direct more money towards superannuation, and who are willing to adopt a higher risk profile, the taxation benefits can be significantly greater.

Stefan Lipkiewicz CEO of Bernie Lewis Wealth Management says there has never been a better time in which to review superannuation as part of a long-term strategy towards wealth creation and financial independence.

"If you are secure in employment and have a proven capacity to budget and manage your financial affairs, the low interest rate and equity market environment has opened up great opportunities," he said.

"Gearing has also made it possible to look at superannuation in a completely new light.

"Gearing is a term or a concept we are all familiar with – borrowing money to invest. It's as simple as that. Most people use gearing when they buy their home. In effect, it is borrowing money to invest in property.

"Borrowing money to invest in other asset classes, such as managed funds and shares, is no different in theory, although there are some slight differences in practice.

"Up until recently, borrowing within a super fund was generally prohibited, although products were developed which gave you the opportunity to use borrowed funds to invest via your super. The increasing popularity of these products prompted regulators and the government to reconsider the place of gearing in superannuation.

"It is now possible to borrow inside a super fund. For many investors, the best way to do this is in the Self-Managed Super Fund (SMSF) environment.

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“So if you’ve been thinking it is a good time to invest, it might also be a good time to consider gearing into a SMSF. It is a tax effective investment strategy that has the potential to boost your super and reach your retirement goals sooner.

“For this super strategy to work you need cash within your SMSF. Your SMSF then borrows an amount from a lender. You then use this combined purchasing power to invest in assets.

“Under the rules, this asset could be shares, property, managed funds, or even art or antiques – bearing in mind the rules around your choice of asset are quite specific.

“The beneficial ownership of the asset is held in trust. This gives the trustee (you) the right to receive income from the asset, and the right to take legal ownership through the payment of instalments.

“Ongoing, any income earned by the asset goes into your SMSF, which is also responsible for paying the bank interest on the loan.

“The concessional tax treatment inside super – where contributions and investment returns are taxed at 15 per cent, as opposed to your marginal tax rate of up to 46.5 per cent (including Medicare levy) – in most cases makes investing inside super more tax-effective than investing outside super.

“Paying less tax means more of your own money is available to invest. And since withdrawals from super are tax-free after age 60, it is even more attractive for long-term investors.

“Capital Gains Tax (CGT) is also typically lower inside super. And if you transition your super into the pension phase, no CGT may be payable.

“Like any gearing strategy, the interest you pay on loans inside your SMSF is generally tax-deductible (inside your fund). This helps offset the tax paid on investment income, which is already subject to concessional treatment inside super.”

So gearing within superannuation can be a very attractive option for some. However, Stefan Lipkiewicz says with increased opportunity comes increased risk, and it is a matter of finding the right balance for your comfort zone and risk profile.

### **What are the risks?**

- **Magnified losses as well as gains** - Just as gearing magnifies your potential returns, it also magnifies your potential losses.
- **Your loan does not change with the markets** - A fall in the market does not change the amount you owe the lender, or the amount you are required to pay in interest.
- **Interest costs may outweigh investment returns** - If interest costs significantly outweigh investment returns, this shortfall must be funded. It may be covered by the income from non-g geared investments, or you may need to contribute additional funds to your SMSF.
- **A margin call may occur** – If the value of your investment drops below a ‘buffer’ set by the lender, a margin call may occur whereby you must have cash available to top-up your investment, or sell some of your investments to reduce the loan to valuation ratio..
- **Interest rate changes** - Changes in interest rates can impact the effectiveness of your gearing strategy as it may change the balance between cost and return.

“Because of the risks, gearing in super is rarely suitable for conservative investors,” Stefan said.

“But having an appetite for investment risk is only part of the equation.

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“Generally speaking, you need to have a SMSF with at least a \$200,000 balance before you would consider gearing in super and husband and wife can invest in the same SMSF. To help mitigate the risks, you also need to maintain adequate cash flow, so it is most suitable to those who are still working.

“Most importantly, gearing in super should be seen as a long-term strategy. Typically a minimum investment timeframe of about 7 to 10 years is recommended to help you ride out the inevitable highs and lows.

“With so many rules and regulations around gearing in super, it is essential to seek assistance from a trusted financial adviser.”

Further Information:

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