HORIZON
INVESTMENT SOLUTIONS

June 2021 — Over the Horizon Market Commentary by David Offer

While the South West is being lashed by a succession of winter fronts, I feel very fortunate writing this (much briefer) monthly letter from a warm and sunny Broome as I enjoy a week away with family to recharge the batteries.

In making a point of trying not to look at the share market for a week, I take this opportunity to outline some of the key changes to superannuation that have now come into effect from 1 July. These include;

- The super guarantee rate will increase from 9.5% to 12% by July 2025, starting July 1 at 10%.
- The maximum number of allowable members in self-managed superannuation funds (SMSFs) will increase from four to six from July 1.
- The annual concessional contribution cap (pre-tax salary sacrificed contributions to super) is increasing from $25,000 to $27,500.
- The annual non-concessional cap is increasing from $100,000 to $110,000 (after-tax savings added to super).
- For people aged 65 and 66, the bring-forward arrangements will be extended for all contributions made on or after 1 July 2020.
- The total super balance and the transfer balance cap are both increasing from $1.6 million to $1.7 million. If you exceed the total super balance cap, then you can no longer make non-concessional after-tax contributions to super. The transfer balance cap is the maximum amount you can commence a retirement income stream with.

While feeling a lot like 'baby steps', the increase in allowable superannuation contributions is welcome. In my 20s I read a book first published in the 1920s titled 'The Richest Man in Babylon' written by George Clason. The key premise of the book, which was set in ancient Babylon, was to save 10% of what you earned and to invest this conservatively. This was to ensure long-term financial security without excessively compromising on more immediate short term needs and wants. This philosophy on money is ageless and it is impressive that Australia, with mandated superannuation contributions now at 10%, has implemented and advanced such a world leading saving system.

The increase in members of a SMSF from 4 to 6 may in time also lead to some interesting changes as it will more easily enable multiple generations of the same family to centralise long-term tax effective wealth accumulation. Whereas it was 2 children being able to join their parents in a SMSF, now it can be 4, a scenario that will now capture most larger families. Alternatively, for a family of 4, the spouses of children can now be included within a family SMSF.

In my circumstances, my SMSF presently comprises of my wife, her mother as well as myself. Into the future, it will now also be able to include our three children; three generations within the same SMSF! This will lead to lower costs per member, a larger and more diversified investment portfolio and hopefully increased investing awareness by the younger generation. Clearly, an excellent reason to get them working as soon as possible!

I will be back in the office refreshed and hopefully a little tanned from next Monday.

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