

Budget update...

Here is what is in store for us coming out of the Budget announcements, subject of course to these proposed initiatives making their way through parliament.

Refund of excess concessional contributions

Individuals who have made excess concessional contributions above the concessional contributions limit, but less than \$10,000 over the limit, will have the ability to have those excess contributions taken out of their super fund. These contributions will be taxed at their marginal tax rate, rather than at the excess concessional contributions tax rate of 46.5%.

A number of eligibility criteria apply:

- This measure is only available from 1 July 2011, for the 2011/12 financial year & later financial years
- Excess concessional contributions in previous financial years are not eligible
- It is a one-off ability to remove excess contributions – i.e. once an individual has used this refund, they are unable to claim further refunds of excess contributions
- It is only available where an individual has exceeded their concessional contributions limit by less than \$10,000
- If an individual exceeds their concessional contributions limit by more than \$10,000, they cannot have the excess amount refunded.

Extending the non-indexation of the co-contribution thresholds

In this year's Budget, the Government announced a 1-year extension to the freezing of the co-contribution upper and lower income thresholds, so that for the 2011/12 financial year, the lower income threshold will remain at \$31,920, and the upper threshold will remain at \$61,920.

Higher concessional contribution caps for over 50s

Originally announced in last year's Federal Budget, the Government has affirmed its commitment to a higher concessional contribution limit applying from 1 July 2012 for those over age 50, but only if they have a total superannuation balance under \$500,000.

Minimum payment amounts for account based income streams

In this year's Budget, the Government announced a gradual roll-back to the 50% income stream drawdown relief.

Effective from 1 July 2011, the relief will be reduced to a 25% reduction to the minimum drawdown amount.

From 1 July 2012, the relief will be withdrawn and pensioners will be required to draw the regular minimum drawdown amounts from their income streams.

Securing super – payslip reporting

From 1 July 2012, employers will have to provide detail on their employees' payslips of the actual amount of superannuation that has been paid into the employee's superannuation account.

Additionally, employees will receive quarterly notification from their super fund if regular payments into their account have ceased.

Greater use of TFNs by Fund Trustees

Effective from 1 July 2011, Trustees will be able to use TFNs to locate lost member accounts and facilitate account consolidation.

Flood levy

The budget papers confirmed the introduction of a Flood Levy for individuals earning \$50,001 or more.

This measure has been announced by the Gillard Government as a one-off tax for the 2011/12 period to assist with the cost of rebuilding areas devastated by the floods and Cyclone Yasi.

Payments from superannuation are captured as part of the levy. Further information for individuals is available on the Australian Tax Office website: www.ato.gov.au/floodlevy or you can view the Fund's website at www.clubsuper.com.au.

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THIS ISSUE

Big is better - right?

Budget update

Big is better – right?

**Well not always!
It depends what you are talking about.**

So, when deciding on the best super fund for your employees, does size matter?

Paul Costello, who is Chair of the Peak Consultative Group for the Federal Government's Stronger Super reforms, recently had this to say on the subject of small versus large super funds:

"There is a concern that you can only be good at this game if you are big. I don't think that is a correct statement...What matters for a super fund is the consistency and stability of net (after fee) returns. You do not have to be large to do that. You can be excellent and small."

Pauline Vamos, Chief Executive Officer of the Association of Superannuation Funds of Australia, expressed a similar view in the March 2011 edition of Superfunds magazine.

"I can assure readers...that big is not always better, that small is not always expensive."

The reality is that some large funds are good and some small funds are good. It's not just size that decides whether a super fund is top notch or bottom of the pack.

No doubt there are some slick sales people out there who will spin a story to suggest your employees are better off in a large super fund than in a small one. We just need to bear in mind that spin doctors have a habit of not allowing facts to get in the way of a good story.

A review of SuperRating's[™] investment return surveys confirms that small super funds can certainly hold their own against their much bigger cousins.

The Australian Prudential Regulation Authority (Federal government agency) also publishes returns for 200 Australian super funds ranging from small to mega size, including long term returns up to 7 years. Looking specifically at Club Super, this fund's investment return over the 7 years to 30 June 2010 is in the top half of the field. There are plenty of large funds in the second half.

Small funds have the advantage of being more nimble, allowing them to make quick decisions and switch investments more readily. It's a bit like turning around a speed boat compared to turning around an ocean liner.

It is also worth noting that professional trustee companies for master trusts are often owned by banks, insurance companies and investment management companies, who need their subsidiaries to make healthy profits to keep their shareholders happy. This translates to higher fees which in return makes it more difficult to deliver the best net (i.e. after-fee) returns. Over both the short and long term, the "not-for-profit" funds have come out on top of the master trusts run by those companies. The following table shows the winning margin in favour of the "not-for-profit" funds for net investment returns over the various periods.

Period	1 Year	3 Years	5 Years	7 Years	10 Years
Ahead By	1.8% p.a.	1.0% p.a.	1.8% p.a.	1.6% p.a.	1.6% p.a.

Amount by which median returns for "not-for-profit" funds outperformed median returns for master trusts for periods ended 31/12/2010. Returns rounded to one decimal place. Source: SuperRatings Smart survey.

But it's not all about investment. When you are looking at how small funds stack up against the big boys, have a think about some of the following qualities.

1. Small funds have higher levels of personal service.

They are much closer to their members and, importantly, the sponsoring employers. These funds are able to keep in touch with greater ease, offering tailored services and much more face-to-face contact. The ratio of customer service managers to the number of members is typically higher in small funds than it is in large funds.

2. There is a direct connection with your industry.

Your employees' super fund has a close link to your industry. This includes employee and employer representatives on the Club Super Board who understand the particular needs of people working in your industry.

3. Insurances are tailored for your industry.

In a small fund like Club Super, insurance is more targeted to the requirements of employees working in that particular industry. Club Super's insurance is a definite winner. For example an employee who is temporarily out of action because of injury or illness, could be paid 100% of his/her income while off work.[^]

4. Support for your industry.

Your super fund is specifically tuned into the priorities for you and your employees. The fund provides active and appropriate support based on a close knowledge of your industry and an understanding of service standards and requirements built up over time.

5. Small funds are nimble.

We mentioned this in relation to investments but it also applies across the whole range of services delivered to super fund members and their employers. When feedback is received, decisions can be taken quickly without becoming bogged down in committees and bureaucracy.

6. Small funds can keep a lid on costs.

Big funds argue that you need size to drive down costs. But there's more than one way to skin the cat. Small funds can keep the lid on costs by teaming up their admin and operational functions with other like minded funds. Also, small funds are in a better position to ensure that money is not falling through the cracks or being unnecessarily squandered.

So big is not always better and in fact small is super!