OMNIWEALTH

Financial Service Inquiry Submission
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About Omniwealth

Omniwealth is one of Australia's leading wealth advisory groups. Our mission is to change the way people are financially advised in Australia. We know that with effective strategy and guidance, we can create a life with greater freedom and choice for our clients. The Omniwealth way is different for the following reasons:

- Our Financial advice is holistic and our strategies include all assets classes;
- We are an education based firm and spend 2 meetings with clients focused on education before moving onto our strategy meeting;
- We are fee for Service Financial Planners;
- We rebate all insurance commissions to our clients;
- We provide needs based financial planning solutions;
- Under the one roof clients can experience our full suite of service offerings – Financial Planning, Accounting, Legal, Mortgage and Finance and Property;
- We believe that property is fundamental in creating real wealth. We are able to recommend specific investment grade property to our clients through our real estate company, Omniwealth Property Pty Ltd;
- We have an in-house chartered Accounting firm, Omniwealth Accounting and Audit Pty Ltd, which specialises in Self Managed Super Fund Compliance and Audit;
- Omniwealth Legal Pty Ltd was established to provide estate planning services, conveyancing and contract advice to our clients as we believe in following through with our financial planning strategies to ensure our clients are protected;
- Finance structuring is a fundamental element in wealth creation. Omniwealth Mortgage and Finance Pty Ltd specialises in Self Managed Super Fund finance strategies;
- The Omniwealth Investment Committee ensures the advice provided in our network is independent, clear and offers guidance to our advisers and clients about the investment landscape;
- Our licensee, Omniwealth Services Pty Ltd, operates on a fee for service basis and has been designed to give advisers access to best financial planning strategies and solutions available;

Contributors

Aaron Greaves
Chief Executive Officer & Responsible Manager of the Omniwealth Group
Aaron Greaves is the CEO and co-founder of Omniwealth and leads the team of advisers with a strategic support framework that ensures all advice is of the highest standard and provided to clients in accordance with legislation. Aaron's has a Diploma of Financial Planning, a Real Estate licence, and a career spanning more than a decade within senior management, senior financial planning and financial advising roles at some of Australia's largest financial institutions.

Andrew Zbik
Senior Financial Planner at Omniwealth Pty Ltd
Andrew's main role at Omniwealth is to educate and advise clients on a wide range of financial planning strategies. He is also a key member of the Omniwealth Investment Committee and plays an important role in running our Managed Discretionary Account. Andrew has obtained a Bachelor of Business Administration, Bachelor of Law and a Graduate Diploma of Legal Practice in addition to a Diploma of Financial Services. His dual financial and legal qualifications place him in a unique position to provide advice to clients.

Ashley McSweyn
National Relationship Manager at Omniwealth Services Pty Ltd
Ashley is responsible for ensuring the Omniwealth Dealer group meets and exceeds best practice standards for financial advice. Ashley has a Master's degree of Applied Finance (FP) and has been worked in the financial planning industry since 2007. Ashley helps advisers in the Omniwealth Network achieve efficiency and compliance in their practice and better outcomes for their clients.

Isaac Chalik
Senior Finance Consultant at Omniwealth Mortgage and Finance Pty Ltd
Isaac is a senior Finance consultant and expert in SMSF lending and structure. Isaac has over 14 years finance and real estate experience. He has a Degree in Economics and Diplomas in Mortgage Broking and Financial Planning. Isaac joined Omniwealth because of his holistic approach to finance.

Genene Wilson
Senior Financial Planner at Omniwealth Pty Ltd
Genene is an active investor and has more than 14 years' experience in the financial services sector. Genene specialises in advising professionals in the medical and legal professions as well as executives. Genene is a CPA Financial Planning Specialist, and has attained a Bachelor of Commerce and Advanced Diploma of Financial Planning.

Hoa Tran
Financial Planner at Omniwealth Pty Ltd
Hoa is involved in educating clients and providing guidance to assist them in achieving their financial goals. Hoa's career began in the financial planning industry in 2004 and since then she has successfully completed her Bachelor of Commerce (Economics) degree and her Diploma of Financial Planning.

Executive Summary

Omniwealth has compiled this submission in response to The Financial System Inquiry Final Report (Final Report) that was released on 7th December 2014.

The Omniwealth submission focuses and responds to two recommendations made in the Final Report – recommendation 8 and recommendation 9.

Recommendation 8 in the Final Report recommends that limited recourse borrowing arrangements (LRBA) currently permitted under Section 67A of the *Superannuation Industry (Supervision) Act 1993* (SIS Act) be repealed. Omniwealth's response to this recommendation primarily focuses on the ability of self-managed superannuation funds (SMSF's) to undertake a LRBA to purchase residential investment property.

The Omniwealth response looks at the relative size of LRBAs in comparison to the broader Australian residential mortgage market. The current operation of 67A of the SIS Act and how Omniwealth has been advising our clients to mitigate risks associated with a gearing strategy to purchase residential investment property. Importantly, we highlight the immediate impacts upon existing SMSF's if Section 67A of the SIS Act were to be repealed and what considerations would need be undertaken by the Parliament to ensure a prospective prohibition of LRBA will not be detrimental to current SMSF's that have or intend to use LRBA.

Recommendation 9 in the Final Report recommends that the objectives of the superannuation system be enshrined in legislation. Omniwealth supports this recommendation in principle. Omniwealth believes the superannuation system will be most effective and advantageous as a wealth management vehicle that can accelerate the ability of members to accrue sufficient capital to fund a retirement income stream. This will result in a reduced reliance upon the Commonwealth Aged Pension.

Omniwealth has provided two case studies that are a typical summation of the advice we provide to our clients. The first case study demonstrates the status quo amongst most Australians. This status quo shows the outcomes of relying upon superannuation as a retirement savings scheme.

The second case study is a typical example of the advice we provide to clients demonstrating how they can use their superannuation as a wealth management vehicle. This case study shows how our clients can use their superannuation as a wealth management vehicle to substantially increase their capacity and ability to achieve their retirement goals. This may involve undertaking a LRBA within a SMSF to purchase a residential investment property.

A comparison of the two case studies demonstrates that retaining Section 67A of the SIS Act in conjunction with using superannuation as a wealth management vehicle will increase the ability of superannuants to achieve greater self-sufficiency in retirement by achieving a larger capital base to support a superannuation account based pension, as opposed to a greater reliance upon the Commonwealth Aged Pension.

Direct borrowing by superannuation funds

The Final Report raises some important issues regarding the proposal to prohibit Limited Recourse Borrowing Arrangements (LRBA) in superannuation which Omniwealth wishes to respond.

Recommendation 8 of the Final Report recommends to "*remove the exception to the general prohibition on direct borrowing for limited recourse borrowing arrangements by superannuation funds.*"

Our submission will primarily focus on the use of LRBA's inside SMSF's to purchase residential investment property.

We note that LRBA can be used to purchase other assets such as Australian equities and international shares. However, we consider the use of LRBA to purchase these assets has been suitably covered in other submission to the Financial System Inquiry.

This section addresses the below points that Omniwealth would like to be considered:

- The cumulative value of LRBA in the superannuation system compared to the greater financial system.
- Impact of prohibiting limited recourse borrowing arrangements for SMSF's - particularly those SMSF's that have exchanged a contact of sale for an off-the-plan residential investment property and are yet to formalise a LRBA to settle the purchase of the residential investment property.
- Prohibiting LRBA will force superannuation funds to invest in other asset classes that historically experience a higher degree of volatility compared to residential investment property.
- Why should our financial system limit borrowing for SMSF's yet allow the less regulated borrowing arrangements to continue outside of the superannuation system?

The cumulative size of LRBA to the Australian financial system

Since 2007, SMSF's have had the ability to undertake a LRBA to purchase single acquirable assets such as residential investment property. As the Final Report noted, over the past five years, the amount of funds borrowed using LRBAs increased almost 18 times, from $497 million in June 2009 to $8.7 billion in June 2014.

LRBA have grown substantially since 2007. However, this has grown from a very low base figure since LRBA were first permitted. Putting this into perspective, the total value of residential mortgage loans in Australia is approximately $1.37 trillion.[1] Thus, LRBA within the superannuation system account for 0.64% of all loans.

[1] Australian Bureau of Statistics, 11/03/2015, *5609.0 – Housing Finance, Australia, Jan 2015,* accessed 24/03/2015 http://www.abs.gov.au/ausstats/abs@.nsf/Latestproducts/5609.0Main%20Features3Jan%202015?opendocument&tabname=Summary&prodno=5609.0&issue=Jan%202015&num=&view=

The current value of the Australian residential property market is approximately $5.4 trillion.[2] As at June 2014 the value of residential property within SMSF's was approximately $19.55 billion.[3] When taking the total value of residential property purchased in SMSF's into perspective, this only accounts for 0.36% of the value all residential properties in Australia.

The relative value of both LRBA within the superannuation system is relatively small compared to the value of the Australian financial system.

Impacts and considerations of prohibiting LRBA for SMSF's

Since 2007, a number of SMSF's have used a LRBA to purchase residential investment property as part of their investment strategy to create sufficient capital to support an account based pension when in retirement.

There are two main scenarios where an SMSF will undertake a LRBA to purchase residential investment property:

1) SMSF's where the trustees have determined that residential investment property is a suitable asset to purchase as part of the SMSF investment strategy. This strategy is ideal for SMSF's who wish to leverage into an asset class that historically experiences a low degree of price volatility. This strategy is suitable for a period of ten or more years.

2) SMSF's where the trustees have determined that a residential property, commercial property or industrial property can be purchased using superannuation and leased as business real property to a company or business operated by one of the members of the SMSF. This strategy is common amongst health professionals who operate a medical practice/health service. Many other small business owners have also used this strategy where their SMSF will purchase the premises and lease it to their business on commercial terms. Ultimately, this strategy will boost their capital at retirement given many small medical practices and businesses do not typically make superannuation guarantee contributions whilst they are operating their own company or business.

How do the current arrangements under Section 67A permitting LRBA work?

We would like to elaborate on how the LRBA permitted under Section 67A of the *Superannuation Industry (Supervision) Act 1993* (SIS Act) operate within SMSF's.

1. An individual, married couple or family members can rollover their superannuation balance from either an industry superannuation fund or a retail superannuation fund into their own SMSF. A SMSF can have up to four members.

2. As trustees of their own SMSF, the members can create an investment strategy suited to their risk profile, superannuation balance, time-frame for investment and choose to purchase a residential investment property as part of their SMSF investment strategy.

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[2] Australian Bureau of Statistics, 10/02/2015, *6416.0 – Residential Property Price Indexes: Eight Capital Cities, Dec 2014,* accessed 24/03/2015 http://www.abs.gov.au/ausstats/abs@.nsf/mf/6416.0

[3] Australian Taxation Office, June 2014, *Self-managed super fund statistical report,* accessed 24/03/2015 https://www.ato.gov.au/super/self-managed-super-funds/in-detail/statistics/quarterly-reports/self-managed-super-fund-statistical-report---june-2014/?page=2#Tables

3. The trustee will need to establish a separate company to act as a bare trustee over the residential investment property that is to be purchased using the LRBA. A bare trust agreement will be created between the corporate bare trustee and the trustee of the SMSF.

4. The trustee will apply for a loan with a lending institution to determine how much money the SMSF can borrow to facilitate the purchase of a residential investment property.

5. The trustee will then identify a residential investment property that meets the requirements of the SMSF investment strategy. This can be either an existing residential investment property or an off-the-plan purchase of a residential investment property.

6. The trustee will sign a contract of sale and exchange contracts as per normal property conveyance procedures. At this stage, the SMSF will pay a 10% deposit as is customary when exchanging property contracts.

7. If the property was an off-the-plan purchase, the trustee will prepare their formal loan application prior to the expected completion and settlement date.

8. As settlement approaches, the trustee will arrange for an additional 10% cash contribution to the property purchase as part of the settlement process. Typically, lending institutions require a SMSF to contribute a 20% cash deposit towards the purchase of a residential investment property.

9. As settlement approaches, the trustee will arrange for cash to be available to meet State stamp duties on the transfer of the property title. Any conveyancing and legal costs will also be paid for by cash from the SMSF.

10. Upon settlement, the remainder of the cash deposit is paid and title in the residential investment property is transferred to the bare trustee with the superannuation fund trustee holding a beneficial interest in the asset.

11. The SMSF‘s trustee will arrange for a suitable tenant to be secured to rent the property. Rental income from the property is used to help service the loan costs and maintenance cost of the residential investment property.

12. Once the LRBA is discharged, the residential investment property is then transferred to direct ownership by the trustee of the SMSF. As there is no change in beneficial ownership, concessional stamp duty is applied when this transfer takes place.

The current legislation permits an SMSF to purchase a residential investment property in a similar manner in which an individual may purchase a residential investment property.

The ability of SMSF's to purchase a residential investment property using a LRBA helps to provide diversity in asset choice for SMSF trustees.

Omniwealth believes that Section 67A of the *Superannuation Industry (Supervision) Act 1993* (SIS Act) should be retained in its current form.

How the risks associated with LRBA in superannuation can be mitigated

Omniwealth has been advising clients around investment strategies using LRBA in SMSF's since 2007. Any gearing with investments whether inside of the superannuation environment or outside of the superannuation environment does increase investment risk.

To mitigate this risk, Omniwealth takes the following into consideration:

1) **What is the client's superannuation balance?** We recommend that the client has at least $125,000 to $150,000 in combined superannuation savings. Such a cash balance is sufficient to purchase a $400,000 to $500,000 investment property inside a SMSF using a LRBA.

2) **What is the client's income?** We review the client's personal income from employment to ensure that there is continuity in superannuation guarantee contributions to the SMSF. We will also consider the client's employment history to ensure that they have enjoyed steady employment.

3) **What contributions are being made to superannuation?** We will review the client's superannuation guarantee contribution history. Most lending institutions require a two year history of regular concessional contributions to the SMSF in order to provide finance. We will also assess if the client has capacity to increase their concessional contributions via salary sacrifice. A higher rate of concessional contributions up to the concessional contribution cap helps to improve the serviceability of the LRBA.

4) **What are the holding costs of a property purchase?** We recommend the client holds six months' worth of interest and rental expenses as a cash buffer. This cash is normally held in an offset account or cash account and is not used for other investment purposes.

5) **How long does the client have in their working life?** We recommend that clients have a view to hold the property for at least 10 years (A full economic cycle). If the client has less than 7 years of working capacity we do not recommend the strategy

6) **Where can we purchase an investment property?** We purchase properties in Australian capital cities to reduce market risk. Examples of capital cities that we have recommended clients to invest in a residential property are Brisbane, Sydney, Canberra, Melbourne, Darwin and Perth.

7) **How can we manage interest rate risk?** A well-structured loan can reduce the impact on cash flow when interest rates rise. During the life of the loan we will consider the economic environment, expectations on interest rate movements and the client's own cash flow. When deemed appropriate, a portion of the loan may be fixed for a period of up to five years. This will provide the client with certainty around cash flow requirements to service any loan.

8) **How can we manage tenant vacancy risk?** Selecting a residential investment property in an area with a low vacancy rate will help to ensure the property is leased.

9) **How can we manage risk of damage to fixtures and fittings?** A suitable landlord insurance policy will protect the SMSF from unexpected expenses where a tenant damages the fixtures and fitting of the residential investment property.

10) **What is the exit strategy?** Based on the clients age, income, superannuation contributions, superannuation balance, time to retirement and risk appetite, we shall ensure that future superannuation contributions and asset growth is sufficient to create the necessary capital and cash flow to discharge the loan. Once the client has attained preservation age and has transitioned into pension phase, the property can be sold and no capital gains tax payable. The proceeds can then be used to discharge the debt and the surplus proceeds reinvested into assets more suitable for a member in pension phase. At this stage, it is important to adjust the asset allocation to include higher yielding income assets and those with capital stability to ensure the pension income stream is supported and longer-term sustainability of the SMSF.

What is the impact if Section 67A permitting LRBA is repealed

Should the recommendation to remove Section 67A of the *Superannuation Industry (Supervision) Act 1993* (SIS Act) be implemented, it will have the following negative and detrimental impact upon trustees and SMSF's:

1) If the trustee of a SMSF has exchanged a property purchase contact and has paid the 10% purchase deposit, the inability of the trustee of the SMSF to enter into a LRBA may mean that the SMSF and the bare trustee do not have the available cash to complete the property purchase at settlement.

    a. This would result in the trustee, the SMSF and the bare trustee defaulting on the property purchase. The SMSF would lose the 10% cash deposit paid.

    b. The cash balance and asset balance of the SMSF would reduce.

2) If the SMSF is no longer able to purchase a residential investment property, the value of the assets in the SMSF without the residential investment property may make the SMSF unviable to operate. This would occur when the balance of the SMSF is under $300,000 without the residential investment property. The SMSF trustees and the members would incur unnecessary costs in winding up and closing the SMSF.

3) If the SMSF fails to comply with the terms of the contract of sale and defaults, the consequences are serious. The seller may sue the buyer for damages or specific performance or both, either affirming or terminating the contract. In the case of terminating the contract the seller may:

    a. Sue for damages
    b. Resell the property
    c. Resume possession of the property; and/or
    d. Forfeit the deposit and accrued interest, and recover from the buyer as liquidated debt any part of the deposit the buyer has failed to pay.

4) If the vendor of the residential investment property does affirm the contract and permit the purchaser of the residential investment property to be changed and assigned to another buyer (such as the members of the SMSF but in their own names) double stamp duty may be payable given two changes of beneficial ownership will have taken place. One from the seller to the SMSF and a second from

the SMSF to the individual members who are then to purchase the residential property in their own names.

For example, if a SMSF has exchanged a contract of sale to purchase a $500,000 residential investment property off-the-plan and a 10% deposit of $50,000 has been paid, repealing Section 67A of the SIS Act may create a situation where the SMSF forfeits the $50,000 deposit as a result of not being able to undertake a LRBA. Secondly, the SMSF will still be liable to pay conveyancing fees of approximately $2,000 plus any other costs requested by the vendor as compensation resulting from the default on the property purchase.

What needs to be taken into consideration if Section 67A is repealed

Should the Parliament pass legislation to repeal Section 67A of the *Superannuation Industry (Supervision) Act 1993* (SIS Act), we request that the following provisions be provided to trustees of a SMSF where a residential investment property purchase contract has been exchanged and a deposit paid:

1) That the SMSF be able to enter into a LRBA to raise the required cash to complete the property purchase. This would apply to SMSF's where a contract of sale was exchanged prior to the date that the prohibition of LRBA under Section 67A of the SIS Act came into effect.

2) That there are no limitations on the duration of time that a LRBA can be entered into after a property purchase contract has been signed and a deposit paid. Some off-the-plan property purchases can take a further 12 months to 36 months to have the residential investment property complete construction and be ready for settlement. The average duration between exchange and settlement of off-the-plan residential property purchases in our experience is between 6 months to 18 months.

3) As per the recommendation in the Final Report, in the event that the asset is sold, the LRBA would then be discharged. The SMSF would not be permitted to enter into a new LRBA.

We reiterate our preference for the current LRBA permitted under Section 67A of the SIS Act be retained. This will not place trustees in the precarious position of having committed to a property purchase and a LRBA at a time when the legislation permits but being faced with the situation where the legislation has changed at time of settlement.

Prohibiting LRBA will concentrate superannuation investment towards more volatile asset classes.

The presence of LRBA within the superannuation system helps to faciliate the purchase of residential investment property. Without this ability to borrow money to purchase residential investment property, many superannuation accounts would be limited to invest in Australian equities, international equities, fixed incomes securities, cash and property via unitised managed funds and listed property trusts.

The vast majority of unitised managed funds and listed property trusts are invested in commercial or industrial property.

Prohibiting LRBA would substantially minimise many superannuation funds abilty to purchase residential investment property. Only superannuation funds with a substantial cash balance equal to the purhcase price of a residential investment property would be able to access this asset class.

The below graph shows the relative voltilaity of international equities, Australian residential property, Australian equities and fixed income markets.

Graph 1 – Comparing asset class volatilty

20 years from June 1994 to Dec 2014

Residential property is less volatile than international equities and Australian equities. Australian residential property grows at a higher rate of return compared to fixed income securities.

Accordingly, Australian residential property is a suitable asset class to be purchased with borrowed monies through a LRBA. The lower volatility reduces the price fluctuation risk and the possibility of the property being valued less than the loan after a long-term exposure to the asset class (of around ten years).

The extra capital that can be invested as a result of undertaking a LRBA and investing in residential investment property will create additional capital and additional income at retirement. This has been demonstrated in Case Study 1 and Case Study 2 later in this submission.

Why treat the superannuation system differently to the wider financial system?

Borrowing in personal name for investment is far riskier than the LRBA regime for SMSF borrowers. Risk is increased through factors like:

- Personal borrower can borrow up to (and over) 105% of investment property purchase price by using other property (including family home) as additional security while SMSF can borrow no more than 80%. This means that other property of the person is immediately at risk and negative equity while an SMSF immediately has equity in the new property purchased with no other assets at risk.

- Personal borrowing at up to 105% means the new property is highly negative geared with high cash flow risk needing to be supported with other personal income. An SMSF borrowing at 80% is far closer to being neutral geared with super contributions covering the difference in the short term.
- Personal borrowings are assessed by banks at lower buffer levels than SMSF which means they are at greater cash flow risk if income or existing debt repayments change in the short term.
- Personal borrowings for investment assume negative gearing tax benefits while SMSF loans don't assume as such tax effects.

All of these borrowing policies in the market for many years across all lenders mean that the general risk in the financial system related to investment borrowing is far greater than the tiny SMSF borrowing market. Despite the higher risk in personal borrowing, Australia has a very small default rate even during GFC. The LBRA and market lending policies for SMSF make this type of borrowing far less risky than the general market for investment borrowing. Hindering SMSF borrowing would only achieve more personal borrowing and therefore higher over risk in the financial system.

Objectives of the superannuation system

The Final Report calls for a review of the objectives of the superannuation system. We support further clarification of the role of the superannuation system and how it can be used to help provide an aged pension for Australian citizens.

Recommendation 9 of the Final Report recommends to *Seek broad political agreement for, and enshrine in legislation, the objectives of the superannuation system and report publicly on how policy proposals are consistent with achieving these objectives over the long term.*

This section addresses the below points that Omniwealth would like to be considered:

- Facilitate consumption smoothing over the course of an individual's life.
- Help people manage financial risks in retirement.
- Superannuation as a retirement saving scheme is inadequate.
- Superannuation be invested in the best interests of superannuation fund members.
- Alleviate pressure on the Government from the retirement income system.
- Be simple and efficient, and provide safeguards.

As previously discussed, any gearing associated with investment in residential property whether inside the superannuation environment via an LRBA or outside of the super environment does increase investment risk.

Facilitate consumption smoothing over the course of an individual's life

Residential investment property that is purchased using a LRBA inside a SMSF is a suitable strategy for the superannuation environment. SMSF's are an effective wealth creation and wealth management vehicle that should remain as part of the superannuation system providing greater choice and diversity for superannuants; and permit Australians to invest in assets they are comfortable with and allow for increased capital being deployed into the system which will ultimately reduce reliance on the Commonwealth Aged Pension.

Income is generated from capital. People can build capital through either savings (deferred consumption) or borrowing. ASIC MoneySmart website recently published information on

How Australians save money (Sweeney Research Jan-2014). What is of concern about that information is that 43% of Australians are classified as *non-savers*. In addition, according to a July 2014 MoneySmart poll of those people that are saving, 48% are saving for a home.

Clearly Australians need greater incentive to save and property is a preferential option.

Therefore, Omniwealth draws the conclusion that it should be an objective of the superannuation system to facilitate wealth creation that involves a combination of savings, exposure to assets that will generate capital growth and a suitable level of gearing where appropriate.

It is the size of the capital base that is most important, as it determines the amount of income that can be generated. Capital grows over time as income is reinvested and market prices of capital goods (demand) increases. Income and growth are fundamental to a sustainable superannuation system and managing risks is vital.

Superannuants needs vary throughout their life-cycle, that is they move through wealth creation, wealth management and estate stages, but what is clear from our experience is that many Australians will fall short of their retirement goals and starting earlier and having more capital is crucial to outcomes in terms of meeting desired retirement income goals. We have a needs based planning approach that seeks to fill the gap between each individuals expected retirement outcome and their retirement goals (Refer Case Study 1 and Case study 2) with each strategy deployed.

Borrowing in super via an LRBA is one of the most effective strategies used to help superannuants fill that shortfall. That is because when people borrow to invest they have more capital working for them, and that creates wealth more quickly (sooner); they enjoy the benefit of compounding over time to boost investment income and capital accumulation.

LRBA combined with tax efficiency supercharges superannuation savings.

Omniwealth has been advising our clients that investment principles come first. A decision to gear investments (borrow) should not be taken in isolation. Gearing should be considered as part of an overall financial plan that considers all aspects of financial wellbeing, including the client’s current consumption needs and overall long-term income requirements in retirement. Those principles do not differ whether investment (and borrowing) occurs inside or outside of the superannuation system.

An ideal investment for gearing is one that you expect to grow in value over time and also generate increasing income returns with minimal volatility. For that reason, gearing should only be considered for growth investments for people who are still in accumulation phase and have at least 10 years’ time frame for investment.

Assets are typically categorised into income (or growth or a combination of both). Shares and property are broadly categorised as growth assets. Both have a history of long-term capital growth, and both have a potential rising income stream (either as dividends or rent) over time.

The benefits of investing in property as an asset class regardless of whether the asset is purchased inside or outside of superannuation are:

- Growth
- Income
- Tax effective

- Access to leverage (gearing)
- Less volatility
- Increased diversification and low correlation to other growth assets
- It is a tangible asset which owners have direct control over.

Overall,

- Australians like and are comfortable with property investment.
- Australians understand property investment.

And as such they should not be prevented from borrowing for investment in the same way inside superannuation as they can outside of superannuation as ultimately it will benefit all Australians with less reliance on the Commonwealth Aged Pension.

Help people manage financial risks in retirement

One of the key objectives of the superannuation system should be to clearly articulate not only how to access benefits such as a transition to retirement income stream or draw down on a pension in retirement, but to also address risks associated with those events to members and superannuation investments and strategies to exit the arrangement.
Case in point, in Australia many people found themselves short of retirement funds from which to draw a pension at the point where the Global Financial Crisis (GFC) struck in 2007/08. Risks such as market shocks, liquidity within the fund and changes in personal circumstances of Fund members all potentially impact the retirement savings pot and the ability of members to access benefits and change funds.

Notwithstanding that some of those issues are dealt with by the SMSF Trust Deed (the governing document) and Trustees at the Fund level in the formulation of the Funds investment strategy, typically questions such as what will happen if certain events arise and an exit strategy are not mandated under the SIS Act. Nor is an exit strategy mandated in the case of an LRBA, rather the onus is on the lending institution to manage whether the applicant is not unsuitable for finance.

In the case of both full liability and limited recourse (LRBA) borrowing, lending institutions are governed by the National Consumer Credit Protection Act 2009 (NCCP); and under that Act it is illegal to discriminate against someone based on their age. Typically, lending institutions consider *Older Australian* applicants for shorter loan terms and want confirmation that exit strategies have been considered; but applicants cannot be rejected just because of age. Given that residential property investments usually need time to mature (at least 10 years), it may be helpful to superannuants and the superannuation system to provide greater guidance with respect to managing financial risks in the lead up to and in retirement.

Superannuation Fund Trustees should plan for the future when setting up the SMSF, however, typically the last thing people think of is what will happen if things go wrong or what will happen in the end.

Currently, the Trustees are not required to be certified that they understand the complexity of the role they are taking on in managing their own superannuation. With respect to the Fund, Trustees are responsible for:

- Setting up the SMSF,
- Ongoing running, operation and compliance, including valuation, preparation of accounts, making decisions about the operation of the SMSF without breaking the rules, administration, paying benefits, taxes and other expenses; and

- Winding up of the SMSF.

At Omniwealth we are an education based financial planning practice and believe that we are here to both educate and assist SMSF Trustees in satisfying their responsibilities with respect to the SMSF. To that end we actively work with our clients and other professionals to achieve that outcome. However, we also believe that all people before undertaking the role of Trustee should be adequately educated and equipped to undertake that role. To that end, we believe that all prospective SMSF Trustees should be certified to take on the role after undertaking an education program.

At the completion of the education program, trustees should be certified that they understand the following with respect to the SMSF:

- Roles and responsibilities of a trustee
- Investment restrictions imposed on trustees
- Rules and limitations surrounding contributions and benefit payments within the SMSF
- Administration involved
- Compliance matters

We recommend the Superannuation System include that all prospective SMSF Trustees undertake an education program, and are certified that they understand their role and responsibilities, and that this certification is reviewed/reassessed periodically as part of a robust Fund compliance program. Furthermore, that there is a mechanism for dealing with the trustee role, responsibilities and member assets in the event that they are unable to do so themselves.

As such, we believe that estate planning for SMSF Trustee/s and member/s should be mandated and this is particularly important where there is a LRBA (or proposed LRBA where a contract for purchase of investment property has been entered into) in order to protect the fund assets and members/Directors interest (where guarantees have been provided) from creditors.

To mitigate risk, Omniwealth believes it is prudent for the superannuation system to take those matter discussed above and the following into consideration when a LRBA is involved:

1. Provide greater guidance with respect to suitability of superannuation member balance/ SMSF balance. Do not mandate minimum balance/s as this may restrict younger Australians who may be suitable candidates for SMSF and LRBA because despite their possible lower member/fund balance they have the benefit of time. Yet clearly if the time frame available for investment in residential property is less than 10 years, and Older Australians may be unsuitable for credit, then statements to this effect will assist superannuants in making decisions as to the suitability to their particular circumstances.

2. SMSF income and serviceability. Whilst it is always prudent to review member income and employment history, in both assessing suitability of strategies, and knowing the client, the main concern with respect to LRBA is that a steady flow of contributions and income is available to the SMSF; and a cash buffer is available to mitigate any short-term cash flow interruptions such as residential property vacancy. With respect to the member contributions consideration should be given the current and future level of Superannuation Guarantee (SGC) and salary sacrifice contributions as well as the member/s surplus of pre-tax income and cash flow to ascertain if adjustments can be made if needed.

3. Buffer for emergencies – six months' worth of interest and rental expenses should be held as a cash buffer and not used for other investment purposes. Thus mitigating the risk that the property may need to be sold at an inopportune time (potentially destroying Fund capital).

4. Investment time horizon – mandating a minimum 10 years to account for economic cycle, growth and maturity of the investment may seem like a sound risk mitigation technique. However, this would prevent opportunistic and speculative investment where immediate equity was available and possibly prevent short-term tactical allocation to residential investment property. Perhaps it is more appropriate for the super system being extended to include a negative test, such as the not unsuitable test of the NCCP may be preferable.

5. Where residential investment property can be purchased (domicile) – should not be mandated. Currently there is no restriction on specific assets purchased by superannuation funds (and non-superannuation) and this should continue to be the case. Trustees should have freedom to assess each investment on a case by case basis and accept a broad range of investments is various asset classes provided those assets are within the scope of the stated investment strategy. Investment strategies are subject to/pursuant to Section 52(2)(f) of the Superannuation Industry (Supervision) Act 1993 and for compliance reasons subject to regular review, this should continue to be the case, as this will assist SMSF Trustees to make necessary changes as they move through the lifecycle.

6. Interest rate risk – Education with respect to financing risks should address interest rate risk. Prudent investors would ensure that they have sufficient knowledge and skill to select suitable products that meet the needs of the SMSF. Generally, the Trustees should have a good understanding of economic cycles and consider product features such as fixed rate loans in a rising interest rate environment to mitigate risk of said rising interest rates; and conversely understand that fixing in a decreasing interest rate environment will incur additional costs and potentially break costs if the loan is to be broken to capture a lower rate. Consider mandating education and consultation with highly experienced mortgage and finance experts to assist the Trustee/member with product selection.

7. Vacancy risk – Education with respect to property investment should address vacancy rates. Prudent investors would ensure that they have sufficient knowledge and skill to select investments in low vacancy areas and possibly consider rental incentives to increase occupancy and income. Consider mandating property education to mitigate risk of poor investment decisions/choice.

8. Damage to real property – a prudent person would insure to protect the assets from damage via Landlord insurance. Consider mandating cover to protect the SMSF assets.

9. Risk of not achieving desired income goal – As discussed in case study 1 and 2, despite to superannuants gearing up for residential property investment, they still fell short of their goal. Despite this shortfall, pressure was removed from the Commonwealth funded aged pension because the superannuants had greater capital available due to employing higher levels of capital earlier in the savings cycle, to self-fund their retirement.

Clearly LRBA is not suitable for people in or nearing retirement phase, however we contend that it is suitable for accumulators. As per case study 1 for accumulation phase, superannuation as a savings mechanism is insufficient. Therefore, with improved education requirements, greater awareness of risks associated with investments generally and in particular LRBA that the superannuation system can be stronger; and with the continued access to LRBA reduce the burden on the Commonwealth Government aged pension scheme in the future (discussed in Case Study 1 and 2).

Superannuation as a retirement savings scheme is inadequate

As illustrated in the case studies (refer summary table below) if superannuation is treated as a savings scheme, as opposed to a retirement investment and wealth creation vehicle, more Australians will not reach their retirement goals. LRBA is an integral part of the superannuation system and should remain so, as can be seen from the table there is a substantial difference of $30,000 on a present value basis between the superannuation incomes available to superannuants in the base case versus with LRBA.

Table 1 –Superannuation as a savings scheme compared to superannuation as a wealth management vehicle

Description	**Case 1**	**Case 2**
Desired pension income	$58,364	$58,364
Capital Requirement to support desired income	$2,511,954	$2,511,954
Principal place of residence debt at retirement	$107,454	$107,454
Retirement time horizon	22 years	22 years
Shortfall to goal (desired income)	68%	17%
Shortfall $'s	**$1,720,324**	**$436,727**
Additional Capital Deployed via LRBA		$380,010
Additional Debt	n/a	$400,000
Income from Net Assets [After principal place of residence mortgage discharged at retirement]	**$31,665**	**$83,009**
Present value of income [assumes 2.5% discount over 22 years]	$18,393	$48,217

One of the key differences between the superannuation and the non-superannuation investments is accessibility. Within the superannuation system benefits are preserved until a condition of release is met whereas this is not the case for non-superannuation investments.

If Australians are not encouraged to accumulate retirement benefits via superannuation, there is the risk of substantial leakage from the system to other consumer discretionary spending as we increasingly become a nation of spenders rather than savers. The Government and the superannuation system should be responsible for the easy passage of and encouragement of Australians to save, invest and create wealth via superannuation as it locks access to those investment proceeds for significant time and defers the consumption until transition to/& or full retirement.

LRBA is an integral part in capital accumulation as it allows participants in the superannuation system being those members of an SMSF to increase capital deployed for the purposes of investment and ultimately significantly reduces the burden on the

Commonwealth Government Aged pension. In the absence of such support for LRBA and investment in residential property it is likely that increasing numbers of retirees will live in poverty because they do not have sufficient accumulated capital to support their retirement income.

Superannuation be invested in the best interests of superannuation fund members

Omniwealth agrees that any clarification of the objective of the Australian superannuation system needs to have the interests of the members as its primary objective. Ultimately, this is to provide the member with the best opportunity to accumulate a sufficient capital balance to provide an account based pension in retirement.

At present, an obligation exists for the trustees of a superannuation fund to create and maintain an investment strategy regarding the management of assets in that fund for the benefit if its members.

However, there is no obligation for this investment strategy to consider specific outcomes such as:

a) Budgeted/required retirement income to sustain living expenses and lifestyle expenses.
b) Specific time frame in which the superannuation monies are to be invested before the fund will need to transition from accumulation phase to pension phase.
c) What shortfall currently exists between the capital sum that is required to provide the budgeted/required retirement income and current projections of growth on capital currently held within that fund.
d) What additional strategies, contributions and capital deployment will be required to meet the members' budgeted/required income/pension in retirement.
e) What will be the outcomes of the status quo is maintained and what that projected outcome will be.

In summary, we believe the current system focuses on the practical management of immediate capital within the superannuation environment. The current system is lacking in checking if the members are advancing a strategy that can reasonably projected to achieve their desired income needs to sustain a comfortable lifestyle in retirement.

Referring to case studies 1 and 2, the Final Report focuses on how to manage superannuation with little regard to the fact that the majority of superannuation balance in Australia are insufficient to provide the required capital balance to provide a suitable account based pension and significantly reduce reliance upon the Commonwealth Aged Pension.

To remedy this issue, Omniwealth believes the investment strategy requirement of all superannuation funds needs to address the following points:

a) What is the estimated time frame the members expect their superannuation capital to be in accumulation phase?
b) What is their budgeted/required income needs in retirement to fund their living and lifestyle expenses?
c) What is the required capital base needed inside the superannuation fund to provide the budgeted/required income stream?
d) Looking at the current capital in the member's superannuation fund, what is the projected capital sum when the member needs to transition into pension phase?
e) Is there a gap between the current capital projections and the required capital projections?

f) If there is a gap, what strategies, additional contributions, additional capital deployment (Which may include the use of a LRBA to increase the capital available for deployment) is necessary to reduce the gap?

Enhancing investment strategy beyond simple management of immediate capital will advance the superannuation system to a more proactive system to achieve the capital required to support the members in pension phase with a recurring income.

Superannuation to alleviate pressure on retirement income system.

When superannuation was legislated as compulsory for all Australians in 1992, a key objective of the superannuation system was and still is to encourage Australians to build sufficient capital to assist with funding their living and lifestyle needs in retirement.

The superannuation system currently saves the Commonwealth Government from having to pay the full Commonwealth Aged Pension to millions of retired Australians.

The current threshold bands results in many retirees receiving a partial payment from the Commonwealth Aged Pension as they rely on superannuation and personal assets that also provide an income stream for retirement.

The below table shows what the current thresholds are to qualify for the Commonwealth Government part-pension.

Table 2 – Qualification thresholds for Commonwealth Government part-aged pension and full aged pension

Family situation	For homeowners part pension assets must be less than	For non-homeowners part pension assets must be less than
Single	$775,500	$922,000
Couple combined	$1,151,500	$1,298,000
Illness separated couple combined	$1,433,500	$1,580,000
One partner eligible, combined assets	$1,151,500	$1,298,000

The ability of all Australians to save and build wealth within their superannuation will further reduce the reliance on the Commonwealth Aged Pension. As demonstrated in case study 1, solely relying on superannuation as a savings scheme (Even with the current proposed increases in the superannuation guarantee) will not provide a sufficient capital base to support a meaningful and recurring income stream to cover living and lifestyle expenses in retirement. The status quo will continue to see heavily reliance upon the Commonwealth to provide substantial partial pension payments in the future.

Case study 2 demonstrates how superannuation, the superannuation guarantee and the use of superannuation as a wealth management vehicle can reduce the dependence Australians will have on the need for the Commonwealth Aged Pension. In our example, we show how the ability of an SMSF to undertake a LRBA to purchase residential investment property will increase the capital available to support an account based pension. Thus, reducing the reliance upon the Commonwealth Aged Pension.

Prohibiting the use of LRBA within superannuation will impact the Commonwealth Government in the future as we have demonstrated the superannuation limited to a savings scheme is insufficient to meet the capital needs of Australians to fund a comfortable retirement.

There is a second aspect to our submission that needs to be considered in terms of Government revenue. Due to the lower taxation rate within the superannuation environment (currently 15% on income and capital gains (10% tax on capital gains if the asset is held for more than twelve months)) the Government provides a lower tax concession on negative gearing and deprecation on residential investment property compared to the same strategy being utilised in an individual's own name where the marginal tax rate on personal income is higher. The top marginal tax rate for an individual can be as high as 49% with the inclusion of the debt level and the Medicare levy.

Therefore, we suggest the concessional taxation environment of superannuation combined with superannuation being used as a wealth management vehicle provides an optimal outcome for the Commonwealth Government, where the Commonwealth Government provides a lower tax concession on residential investment properties purchased within a SMSF where a LRBA has been used, as well as the ability that this strategy will build more capital for the members of the superannuation fund to reduce their reliance on the Commonwealth Aged Pension at retirement.

The concessional tax environment of superannuation and the duration in which many Australians have before they can access their superannuation benefits tends that residential property investment using LRBA within a SMSF provides a more optimal outcome for the Commonwealth Government. Secondly, the inaccessibility of superannuation during accumulation phase will result in a lower degree of property investment speculation as assets are purchased with a longer view of ownership compared to purchasing the same asset class in individual or joint ownership as the capital gains and income can be accessed sooner.
If not allowing people to build capital they will need more on pension. Negative gearing is a structure which is more pay out tax deduction increase speculation in own name with bigger tax deduction.

Be simple and efficient, and provide safeguards

Various reforms made by Parliament since the introduction of compulsory superannuation in 1992 has aimed to make the superannuation system simple and efficient.

Reality is superannuation legislation will need to continuously evolve as the array of assets and investments that can be purchased continue to grow.

At present, lending institutions apply a higher degree of due diligence and rigour when assessing a loan application for credit when taking place under a LRBA. This in Omniwealth's opinion already applies a safeguard for superannuation members to ensure the balance of their superannuation monies are protected in the event of a default under the LRBA.

Limited to the context of undertaking a LRBA within a SMSF to purchase residential investment property, Omniwealth suggests the following safeguards to ensure such a strategy is used in a manner this is appropriate to the risk profile, investment time frame and life stage of the superannuation members:

1) Undertaking a LRBA is suitable for superannuation members who are in accumulation phase and still have a period of time left in the workforce. We recommend that it is inappropriate for superannuation members in pension phase to undertake a LRBA. In this context, it may be appropriate to consider restrictions to

undertaking a LRBA only to those superannuation member who are in pension phase. However, LRBA undertaken during accumulation phase should still be allowed to continue after the client has transitioned from accumulation phase to pension phase. Once that LRBA is discharged, no new LRBA can be undertaken once in pension phase.

2) Liquidity and the ability to service short-term (0-2 years) loan repayments incurred under a LRBA within a SMSF is important. Failure to service such loan repayments can result in the SMSF forfeiting upon its loan obligations. Omniwealth recommends to its client to place aside a cash buffer to cover at least six months' worth of interest and other expenses associated with the asset purchased using the LRBA. In this context, it may be appropriate to establish guidelines to minimum liquidity requirements within a SMSF if a LRBA is undertaken.

Case Study: Assumptions

The following assumptions have been used for both Case Study 1 and Case Study 2:

- A married couple with the male aged 47 and female aged 45.
- Both generate an income that is equal to the Australian Weekly Ordinary Times Earnings (AWOTE) of $1,476.30/week or $76,767.60pa each[4]
- The couple plan to retire in 23 years-time when the female is aged 67. This is the current qualification age for the Commonwealth aged pension.
- Male superannuation balance amounts to $102,358[5]
- Female superannuation balance amounts to $60,618[6]
- The couple have set a goal of a retirement income of $58,364[7]
- Superannuation guarantee contributions are calculated as follows:

    - Current superannuation guarantee of 9.50%
    - 10.00% in FY 2021/2022;
    - 10.50% in FY 2022/2023;
    - 11.00% in FY 2023/2024
    - 11.50% in FY 2024/2025; and
    - 12.00% FY 2025/2026 and onwards.

- Principal place of residence valued at the median house price for Sydney of $900,500[8]
- Interest rate: 4.98%
- Average mortgage: $538,000[9]
- Inflation rate assumption: 2.50%
- Income yield assumption: 4% (Net yield between equities and property on a 50:50 basis)
- Capital growth assumption: 7% (Average of share market price return and property returns) Add chart showing returns in appendix
- Invested in diversified portfolio of Australian shares, international shares, bonds

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[4] AWOTE provided by ABS

[5] The Association of Superannuation Funds of Australia Limited (ASFA), Ross Clare, March 2014 "*An update on the level and distribution of retirement savings*"

[6] As above.

[7] The Association of Superannuation Funds of Australia Limited (ASFA), December 2014, *AFSA Retirement Standard,* accessed 23/03/2015*,* http://www.superannuation.asn.au/resources/retirement-standard

[8] Residex Pty Ltd, December 2014, State Market Report New South Wales

[9] Australian Bureau of Statistics, 12/06/2014, *4102.0 – Australian Social Trends 2014 – Property Debt,* accessed 23/03/2015 http://www.abs.gov.au/ausstats/abs@.nsf/Lookup/4102.0main+features402014#total

Case Study 1: Using Superannuation as a savings scheme only

The purpose of the below case study is to show how limiting superannuation to a savings scheme will not help Australian citizens achieve a meaningful superannuation balance to fund a comfortable retirement.

Projections

Graph 2 – Net asset projections using superannuation as a savings scheme

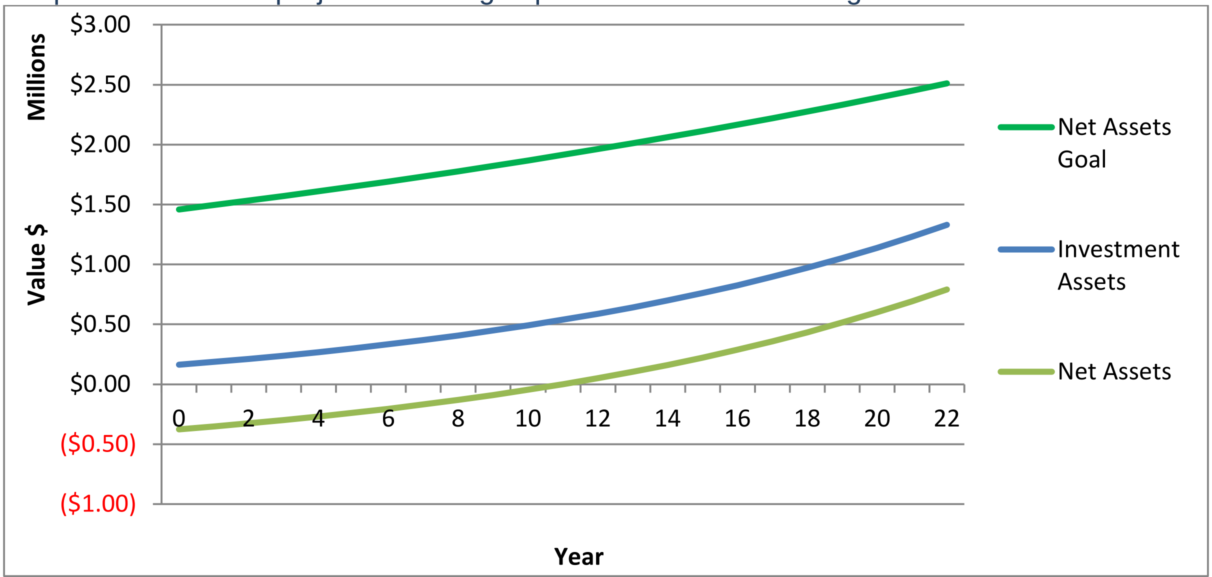

Table 3 - Net asset projections using superannuation as a savings scheme

GOAL CALCULATIONS

Asset Value	Year 0	Goal - 22
Investment Assets	$162,976	$1,329,621
Total Debt	$538,000	$538,000
Net Assets	-$375,024	$791,621
Net Assets Goal	$1,459,100	$2,511,945
Net Assets Shortfall $	-$1,834,124	-$1,720,324
Shortfall / Goal %	-126%	-68%

Commentary

- To achieve the desired retirement goal of a pension income of $58,364, the couple will require $2,511,945 in superannuation savings to provide this income without relying on the draw-down of capital to fund their pension.
- The above projection factors in debt repayments against the couples principal place of residence.
- With a principal and interest loan on the principal place of residence, the couple would still owe $107,453.50 at their retirement date in 22 years-time. This would likely be paid by a lump sum pension withdrawal from their superannuation fund. Thus, reducing their superannuation balance and increasing their reliance on the Commonwealth Aged Pension.

- After factoring the assumption mentioned above, the couple will still be 68% short of their goal with a net asset short-fall of $1,720,324. Their net assets would provide an income of $31,664.84 after the loan on their principal place of residence has been discharged. This is equivalent to an income today of $18,393 using a discount rate of 2.50% over the 22 years.

Conclusion

Relying on superannuation as a saving scheme at current superannuation guarantee contributions in conjunction with home loan repayments on an average size mortgage is clearly inadequate to assist with generating sufficient capital within the superannuation system to provide an account based pension.

This case study has used average assumptions for an Australian couple. The couple would still be heavily reliant upon the Commonwealth Government Aged Pension as their superannuation will only provide 31.50% of their income needs in retirement.

Case Study 2: Using Superannuation as a wealth management vehicle with limited recourse borrowing arrangements

The purpose of the below case study is to show how superannuation as a wealth management vehicle used in conjunction with the current permissible limited recourse borrowing arrangements will substantially improve the financial projection of the couple used in the case study. This is to be compared to the projection used in Case Study 1.

Additional assumptions

For this Case Study, the following assumptions apply in addition to the assumptions outlined on page 21.

- Residential investment property purchase of $500,000
- Interest rate of 5.50%
- Superannuation guarantee of 9.50% or $14,586 in year 1.
- SMSF accounting and audit costs of $2,750pa
- Residential investment property deposit of $100,000 or 20% of purchase price
- Assumed stamp duty (NSW) of $19,990 and conveyancing costs
- Surplus cash of $42,986 ($29,387 retained as cash buffer in offset account for investment property).
- Surplus cash balance of $13,599 kept in managed fund or Exchange Traded Fund of Australian shares.

Projections

Graph 3 – Net asset projection using superannuation as a wealth management vehicle in conjunction with a limited recourse borrowing arrangement

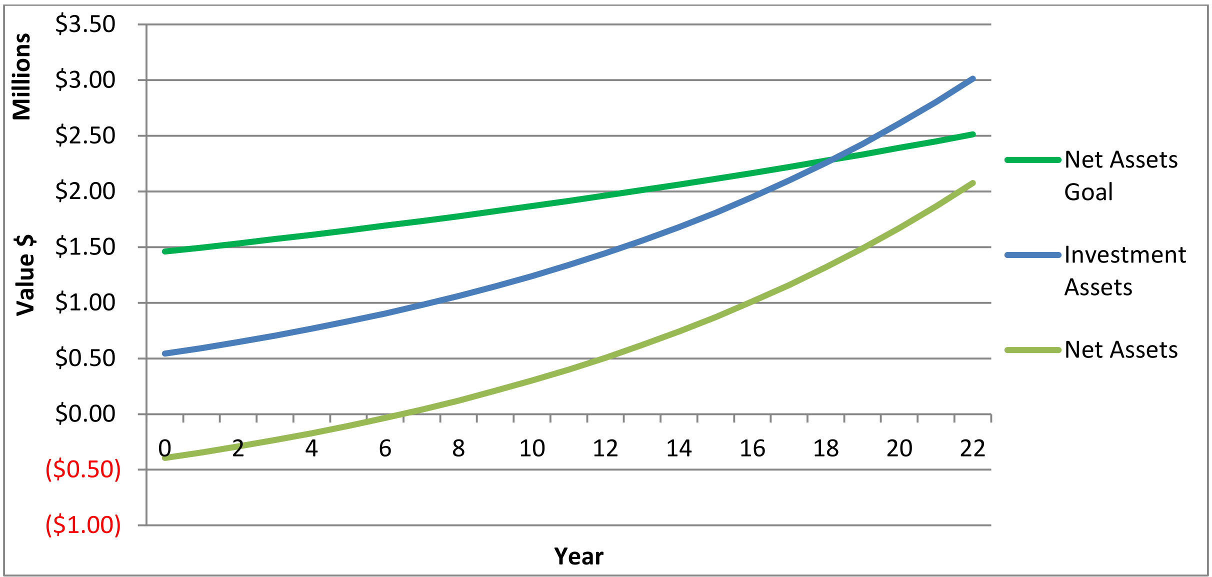

Table 4 - Net asset projections using superannuation as a wealth management vehicle in conjunction with a limited recourse borrowing arrangement

GOAL CALCULATIONS

Asset Value	Year 0	Goal - 22
Investment Assets	$542,986	$3,013,218
Total Debt	$938,000	$938,000
Net Assets	-$395,014	$2,075,218
Net Assets Goal	$1,459,100	$2,511,945
Net Assets Shortfall $	-$1,854,114	-$436,727
Shortfall / Goal %	-127%	-17%

Commentary

- To achieve the desired retirement goal of a pension income of $58,364, the couple will require $2,511,945 in superannuation savings to provide this income without relying on the draw-down of capital to fund their pension.
- The above projection factors in debt repayments against the couples principal place of residence.
- With a principal and interest loan on the principal place of residence, the couple would still owe $107,453.50 at their retirement date in 22 years-time. This would likely be paid by a lump sum pension withdrawal from their superannuation fund.
- Due to the LRBA undertaken at ages 47 and 45, an additional $380,010 of capital was invested in year 0. Additional debt due to the LRBA was $400,000. This resulted in an additional $1,283,597 of capital available at retirement to support the couples retirement. This is now 17% short of their retirement goal. A difference of 51% compared to the scenario in Case Study 1.
- The income that can be derived from the superannuation fund at retirement is $83,008.72 after the loan on the couples' principal place of residence has been

discharged. This is equivalent to an income today of $48,217 using a discount rate of 2.50% over the 22 years.

- The LRBA created additional capital over the course of their working life. In turn, this will now generate an additional $51,343.88 per annum to support their retirement.
- The additional capital and income achieved due to the ability to undertake a LRBA will reduce the couples' reliance on the Commonwealth Aged Pension.

Conclusion

The ability to undertake a LRBA enables Australian citizens to increase the amount of capital invested. This increase in capital in turn will produce a greater capital gain over the long-term. A larger capital base at retirement will generate a larger income to support an account based pension.

If Australian citizens are able to increase the capital return of their superannuation it will reduce their reliance on the Commonwealth Aged Pension at retirement.

This case study has used average assumptions for an Australian couple. Due to the use of a LRBA in the superannuation environment, the couple's reliance upon the Commonwealth Government Aged Pension has significantly reduced. Their superannuation will now provide 82.60% of their income needs in retirement.