The reality is that Australians receive financial support for their retirement from the government through either the age pension, tax concessions on their superannuation or some combination of the two. When both forms of assistance are added up across a lifetime, the average taxpayer benefit is around $300,000 across all tax brackets as a contribution by the Government.

The moral here is never let the facts get in the way of a good story!

The other important point is that over the past decade there has already been a significant winding back in the ability of individuals to make concessional superannuation contributions. Contribution thresholds, which previously were un-capped, have been progressively wound back to $100,000, to $50,000 and now to $25,000 per annum. It is no longer possible for individuals to tax effectively dump large sums of money into super – those often quoted individuals who have in excess of $10m in super achieved these balances prior to the introduction of the current contribution caps. To the extent that this is seen as a problem, then it should be recognised as an historical anomaly and not one that can be repeated under current laws.

Having now vented our spleens about ill-informed calls for superannuation reforms, we do acknowledge that there is probably room for some sensible change:

- To placate the concern that superannuation should not be an inheritence planning tool, there is scope to consider some form of **lifetime cap** on super contributions.
- The review of the superannuation system must be **de-coupled from the budget process and contemplated (say) only once each parliamentary term**. Typically Governments have announced changes to superannuation as part of bi-annual fiscal reviews (ie the budget and MYEFO). In order to maintain investor confidence, superannuation reform needs to be seen as considered and measured, not some short term cash grab to alleviate an emerging budget deficit.
- Application of a **"tax rebate" to concessional contributions**, rather than a flat tax rate. For example, a concessional contribution might attract a 20% tax rebate, rather than a flat 15% rate of tax. This means that someone on a marginal tax rate of 47% would pay contributions tax of 27%, rather than the current 15%.

Thankfully, the noises coming out of Canberra (at least on the Government side) are quite positive. The Treasurer (Scott Morrison) has made it clear that any changes to superannuation cannot be **retrospective** and hence will likely focus on the accumulation phase (including contributions) rather than on retirement or pension phase (and the tax rates applied thereto).

ASSET ALLOCATIONS

We are looking to position client portfolios as follows:

- **Australian Equities (Slightly Overweight):** We remain constructive on Australian stocks, particularly as we move into the latter part of the year. We still believe the RBA will deliver at least one more rate cut in this cycle which, combined with lower oil prices and a softer currency, could see an extended period of outperformance by Australian equities.
- **Global Equities (Neutral):** Whilst the US market has pulled back this quarter (and subsequently clawed back some of the losses) it is potentially still over-priced and in the new year we would not be surprised to see a "C-leg" down. We continue to see good value in Asian equities.
- **Property (Underweight):** Listed Property has clearly benefited from the flight to yield (and more recent reductions to interest rates). In the very short term the sector is likely to be buoyed by further M&A activity, but this will then likely signal a period of under-performance.
- **Fixed Interest (Slightly Overweight):** Given the level of interest rates, it is preferable to hold a little less in cash and a little more in fixed interest instruments (such as income securities).
- **Cash (Slightly Underweight):** As a result of our positions in other asset classes, together with historically low interest rates, cash is presently a little underweight.

Regards

Andrew & Stephen
23 November 2015

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