Financially speaking

SPRING 2023 EDITION

Greater super contribution opportunities from 1 July 2023

If you are looking to increase your super, and are under age 75, then a good way is through making non-concessional contributions. Recent changes to legislation have provided greater opportunities for additional non-concessional super contributions that may help you in building your super balance.

When and why make non-concessional contributions?

If you sell an asset of considerable value or receive a significant financial windfall, it could give you the opportunity to deposit that money into your super and better help you fund your retirement and future. Making non-concessional contributions not only increases your investment wealth in a tax-advantaged environment, it also is a great estate planning strategy, as no tax is payable on this amount when you die regardless of whom it is paid to.

What are non-concessional contributions and bring forward non-concessional contributions?

Non-concessional contributions are after tax contributions made to super with no 15% contribution tax on the way in.

The standard non-concessional contribution cap in 2023/24 is $110,000 per annum.

In addition, the bring-forward non-concessional contribution rule allows you to make up to three years' worth of non-concessional contributions in one financial year ($110,000 x 3). There are certain eligibility criteria that you need to meet in order to make a non-concessional contribution such as total super balance restrictions, but it does mean you might be able to boost your super balance by up to $330,000 in a tax effective environment. If you are approaching 75 years of age, it is important to contact your Financial Adviser urgently, as strict age limits apply.

What is total super balance (TSB)?

Generally, your TSB is the sum of all amounts you have in the super system at 30 June each year. At a high level, it includes:

- your accumulation account balances
- your super pension accounts.

Exceptions and modifications may apply. Calculating TSB can be complex, especially for people with defined benefit components, so it's important to seek advice.

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What has changed from 1 July 2023?

Since 1 July 2023, the general transfer balance cap has increased to $1.9m (increase from $1.7m).

The total super balance threshold for making non-concessional contributions has increased to $1.9m. This increase in the total super balance threshold means there are more opportunities to make non concessional contributions under the bring forward rule from this financial year onward.

This is because in the year the bring forward contribution is triggered, the increased total super balance (TSB) thresholds allow greater opportunities to make larger non-concessional contributions as outlined in the following table:

Total super balance at 30 June 2023	Non-concessional contributions available in 2023/24
Less than $1.68m (previously $1.48m)	Up to $330,000
At least $1.68m but less than $1.79m (previously $1.59m)	Up to $220,000
At least $1.79m but less than $1.9m (previously $1.7m)	Up to $110,000
$1.9m or greater (previously $1.7m)	Nil

These rules are complicated, so it's important you speak to your Financial Adviser before you turn 75, as strict age limits apply.

Minimum pension payments return to normal (no more 50% reduction)

From 1 July 2023, superannuation members with account-based pensions are required to again take at least the standard minimum pension amount each year from their account. This is called the minimum pension payment and for existing income streams, it is a percentage of your account balance on 1 July.

The Government halved this minimum payment requirement for 2019/2020 in response to the COVID-19 pandemic. This was done to allow pension members to withdraw less of their retirement savings, to assist pension account balances to recover from capital losses during volatile markets. This was a temporary reduction that applied over the last few years and extended to 30 June 2023.

However, for 2023/24, the minimum drawdown amounts returned to normal levels as shown in the following table.

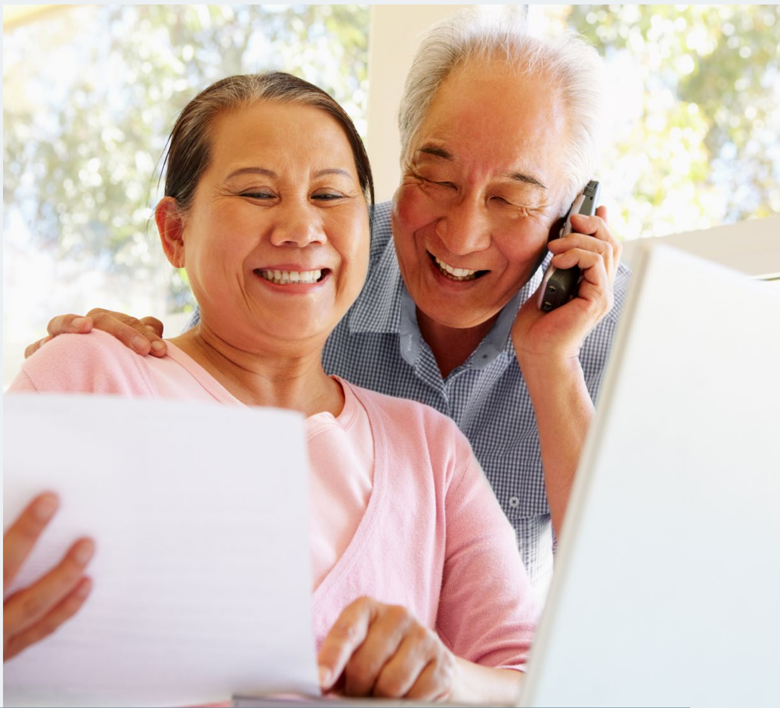
Age of member at 1 July	Minimum percentage factor
Under 65	4%
65-74	5%
75-79	6%
80-84	7%
85-89	9%
90-94	11%
95 or more	14%

Members can take more than the minimums stated above but run the risk of depleting their capital faster.

Income stream providers may contact you if you hold existing account-based pensions to confirm the level of pension payments for the new financial year.

SMSF trustees should also closely review the requirements to ensure that the minimum pension amount will be paid in the financial year. Failure to make the required minimum payments could result in significant penalties.

It's important to seek advice for assistance in managing your cashflow.



Power-hungry AI a watch-out for equity investors

In all the investor excitement about AI equities, investors may be missing a crucial factor. Pendal equities analyst Elise McKay explains.

Big US tech stocks are soaring on a wave of new, advanced AI applications.

But similar to Bitcoin's early days, excited AI investors may be overlooking the technology's extremely high power costs and potential associated sustainability issues, argues Pendal Aussie equities analyst Elise McKay.

Whilst the remarkable progress of AI promises to revolutionise industries, the sheer cost of the electricity needed to train and run the systems puts a question mark over the long-term prospects of adoption.

"There's three key components of power usage required for running a generative AI model," says McKay."First of all, there's the power needed to simply build the equipment that it runs on. Then there is the enormous power required to train the model. And then every time you ask it a question it requires new computations — and that means more power."

Even before generative AI became widely available, demand for data was expected to increase at a compound annual growth rate of 40 per cent per year. The data centre industry is already estimated to account for about 1 per cent of global energy demand, says McKay.

"Just because it's on your phone doesn't mean it's not in a data centre somewhere — and data centres need electricity. Any new technology just increases demand for power."

McKay uses the example of bitcoin mining, which rapidly increased its share of global energy consumption from next to nothing to an estimated 0.5 per cent in 2021.

"Emerging technologies like bitcoin mining can see very rapid adoption and dramatic increases in demand for power," says McKay. "We are now seeing the broad take up of generative AI, which is significantly more power hungry than existing technologies."

A study by Stanford found that training the popular GPT-3 generative AI system contributed almost 10 times the emissions that the average car consumes in its lifetime, says McKay.

Estimates are the newer GPT-4 model was eight times more power intensive again, she says. "And you don't just do this once, you do it regularly."

OpenAI — the company behind ChatGPT — says it continuously improves its AI model by "training on the conversations people have with it."

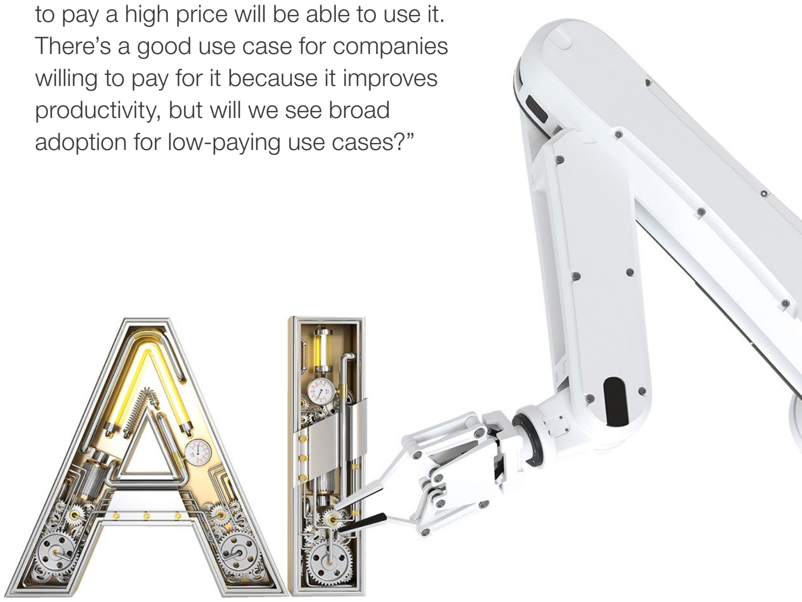
"And each model can only do one search at a time," says McKay. "So, if 100,000 people search for something at the exact same time you need 100,000 copies of the model otherwise queries will be queued.

Estimates are that every time you query ChatGPT, it is 300 times more expensive than a Google search."

High power usage has also raised question marks over the carbon footprint of the technology industry, with many providers shifting to renewable energy to minimise their impact on the environment.

"The high cost of providing AI will hinder its adoption," says McKay.

"It may mean that only companies willing to pay a high price will be able to use it. There's a good use case for companies willing to pay for it because it improves productivity, but will we see broad adoption for low-paying use cases?"



What you can do to protect your personal information

In Australia we are seeing an increase in the number and sophistication of cyber threats. Our reliance on the internet has created opportunities for cyber criminals to exploit vulnerable targets. According to the Australian Cyber Security Centre, over the 2021-22 financial year there was a 13% increase in cybercrime reports from the previous year.*

We know cybercrime is a real threat to all Australians, which is why it is important that we all do what we can to keep our data, systems and devices safe.

We ask you to please check the sender address on all correspondence you receive, and never click on a link you are unsure of. Here are a few simple, additional steps we recommend to help keep you cyber-safe:

Install anit-virus software on all your devices and regularly update the software

Use a strong password or unique passphrase and activate two-factor authentication where possible

Don't share your personal information or whereabouts on social media

Never give out your personal information over the phone unless you have properly identified the caller

We will not ask you to perform financial transactions over the phone

If you see an email from us that you think is a scam let us know

Thinking ahead? Let's talk about strategies for creating a positive financial future.

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