

SMSF Trustee Briefing

Presented by

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A sobering thought OR an opportunity

“More than one in four Australian seniors live in poverty on international measures

This is the fourth highest old-age poverty rate in the OECD countries and more than double the OECD average.”

Source: OECD (2009) – Pensions at a Glance: Retirement Income Systems in OECD Countries

Today's agenda

- ◆ Reasons why we recommend SMSF
- ◆ Recent changes,
- ◆ Six tips and potential traps,
- ◆ What happens to super on death?
- ◆ Gearing in super
- ◆ Characteristics of direct shares

Governing rules

- A self managed super fund is managed in accordance with its “governing rules”.
- Governing rules include:
 - ✓ The fund’s trust deed,
 - ✓ Any “special” rules
 - ✓ Legislation.

Recent changes

- 💧 Pension drawdown relief:
 - ✓ Minimum income drawdown requirements have been halved for 2009/10,
 - ✓ In response to the fall in value of superannuation assets and lack of liquidity with some investments.
 - ✓ Will revert back to standard requirements from July 2010.
 - ✓ Carey Accountants will send trustees a letter annually advising of min and max.

Recent changes

- Concessional contribution caps halved:
 - ✓ Applies from 1st July 2009,
 - ✓ Concessional caps are now:
 - If under 50 - \$25,000,
 - If 50 or over - \$50,000 (until 1st July 2012)

Contributions

- 💧 Types of contributions:
 - ✓ Concessional contributions
 - ✓ Personal non-concessional contributions
- 💧 Who can contribute?

Concessional contributions

Issues to watch:

- ◆ Salary sacrificed contributions - need to review?
- ◆ Superannuation guarantee contributions are included under Concessional Contribution Cap.

Contribution changes

How has change to concessional contributions impacted retirement strategies?

- ◆ Trend has been to maximise super in last few years before retirement – when more affordable,
- ◆ Need to maximise super contributions earlier,
- ◆ If making personal tax deductible contributions or salary sacrificing, need to monitor level of contributions closely,
- ◆ Transitional cap ceases 30th June 2012.

Some tips and traps

- ◆ Accessing super,
- ◆ Trusteeship,
- ◆ Sole purpose test,
- ◆ In-house assets,
- ◆ Acquiring assets from related parties,
- ◆ Carrying on a business.
- ◆ Estate Planning in a SMSF

Accessing super

- Most benefits are preserved,
- “Condition of release” must be met to access preserved benefits

Accessing super

Conditions of release	Cashing restriction
Retirement – from age 55	Nil
Reaching age 65	Nil
Permanent incapacity	Nil
Temporary incapacity	Income replacement
Death & diagnosis of terminal illness	Nil
Reaching preservation age	Non-commutable income stream
Financial hardship	Single lump sum of up to \$10,000
Compassionate grounds	Single lump sum determined by APRA

Trusteeship

- ◆ Individual trustee or corporate trustee,
- ◆ Every trustee must be a member, every member must be a trustee (or director of a corporate trustee),
- ◆ Special rules for single member funds.

Sole purpose test

- ◆ Each fund must have at least one “core” purpose:
 - ✓ Retirement benefits on reaching preservation age,
 - ✓ Benefits on attaining age 65,
 - ✓ Death benefits
- ◆ May also include one or more “ancillary” purposes.

In-house assets

- ◆ Can a super fund lend money to a member or a relative of a member of the fund?
- ◆ If so, are there any restrictions on the amount?
- ◆ A super fund can not provide financial assistance to a member or relative of a member but it may lend up to 5% of the market value of the assets of the fund to a related party?

Acquiring assets

- 💧 Can a super fund buy assets from a member or a related party of a member of the fund?
- 💧 Limited exceptions for;
 - ✓ Business real property,
 - ✓ Listed securities,
 - ✓ In-house assets,
 - ✓ Widely held trusts & in-house assets.

Carrying on a business

- ◆ Can a SMSF carry on a business?

No - caution must be exercised to ensure the fund is being maintained solely for the purpose of providing retirement benefits for members and their dependants,

- ◆ If running a business through your SMSF, expect the ATO to take a very close interest.

Estate Planning

- ◆ What happens to SMSF if trustee/s lose capacity?
 - ✓ Directors or trustees must be replaced within 6 months,
 - ✓ Otherwise fund becomes non-compliant for SIS,
 - ✓ Enduring POA can replace member as trustee,
 - ✓ Therefore important to have enduring POA established otherwise benefits may need to be rolled to public offer fund.

What happens to my super when I die?

💧 It depends.....

- ✓ Super benefits are dealt with in accordance with the rules of the fund,
- ✓ Can only be paid to a SIS dependant or the estate,
- ✓ May be paid as a lump sum or and a pension (with limitations),
- ✓ Benefit may be taxed depending on relationship between member and beneficiaries, and age.
- ✓ Type of nominations

What can a SMSF Invest in?

💧 Various types of Investment Assets

- ✓ Property – Commercial, residential, listed or unlisted trusts
- ✓ Shares – direct or through unit trust both in Australia and Overseas
- ✓ Cash & fixed interest assets.
- ✓ Government and corporate bonds
- ✓ Collectables – art work/stamps/wine
- ✓ Businesses
- ✓ Gold / precious metals – physical or listed

Remember

- ◆ Assets held within the SMSF must be strictly for investment purposes,
- ◆ Assets held within SMSF must be consistent with the funds investment strategy,
- ◆ If not, fund risks being non-compliant.

Investing in the Share Market

- ◆ Comprises of three things:
 - ✓ You are investing in a business, i.e. you own a portion of a real business
 - ✓ You transact in a listed market to buy or sell your portion of that business
 - ✓ The market gets its right over the long term, but can and will be irrational in the short term

What is Important

- 🔹 All that matters is as follows:
 - ✓ How is the business performing relative to where it was 5 or 10 years ago
 - ✓ If the trend is improved performance, it warrants continued support
 - ✓ Market price does not equal value - ignore the noise
 - ✓ Only look at the share market if you want to transact
 - ✓ If you want to see how your business is performing, read the company's annual report and profit announcements

Useful Quotes

- ✓ The future is *never* clear, you pay a very high price in the stock market for a cheery consensus
- ✓ Uncertainty actually is the friend of the buyer of long term business values
- ✓ Be greedy when others are fearful, and fearful when others are greedy
- ✓ Be long term greedy and not short term greedy
- ✓ Cash combined with courage in a crisis is priceless

Direct Shares

- ◆ Key benefits of direct shares
 - ✓ Transparency
 - ✓ Taxation benefits
 - ✓ Lower costs
 - ✓ Liquidity

Direct Shares

- ◆ Risks of direct shares
 - ✓ Volatility
 - ✓ Concentration risk
 - ✓ Time

Company Characteristics

- ◆ What we look for in a company
 - ✓ Well established businesses
 - ✓ High barriers to entry in industry
 - ✓ Capable management
 - ✓ Generate high return on equity >15%

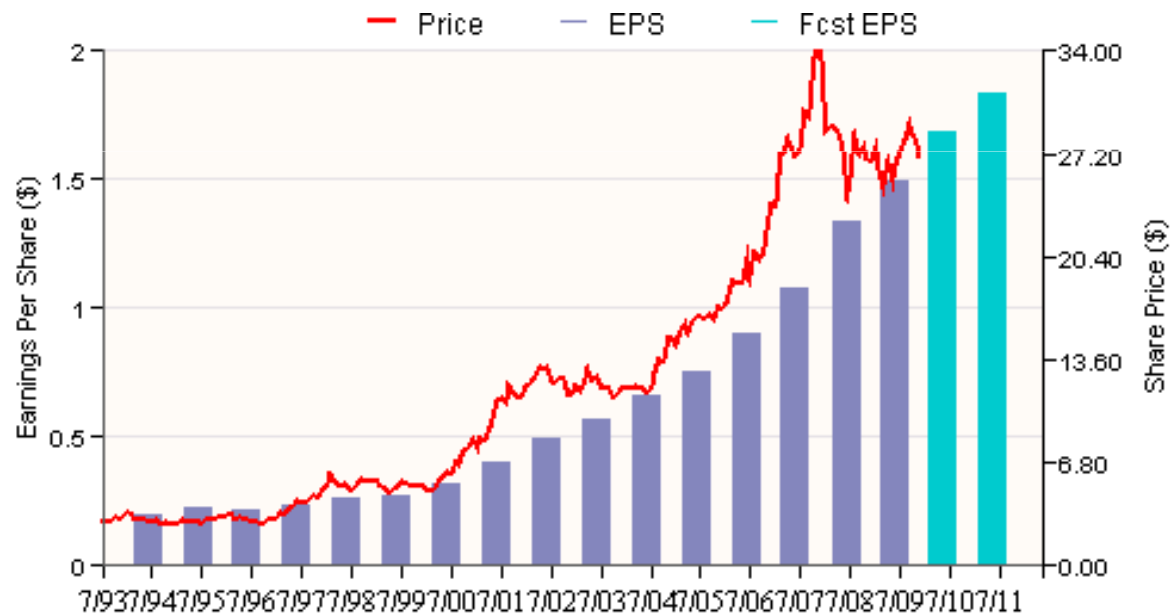
Company Characteristics

- ✓ Low to moderate gearing levels
- ✓ Preference for franked dividends
- ✓ Proven history of increasing earnings and shareholder returns
- ✓ Attractively priced relative to year high and intrinsic value

Company example

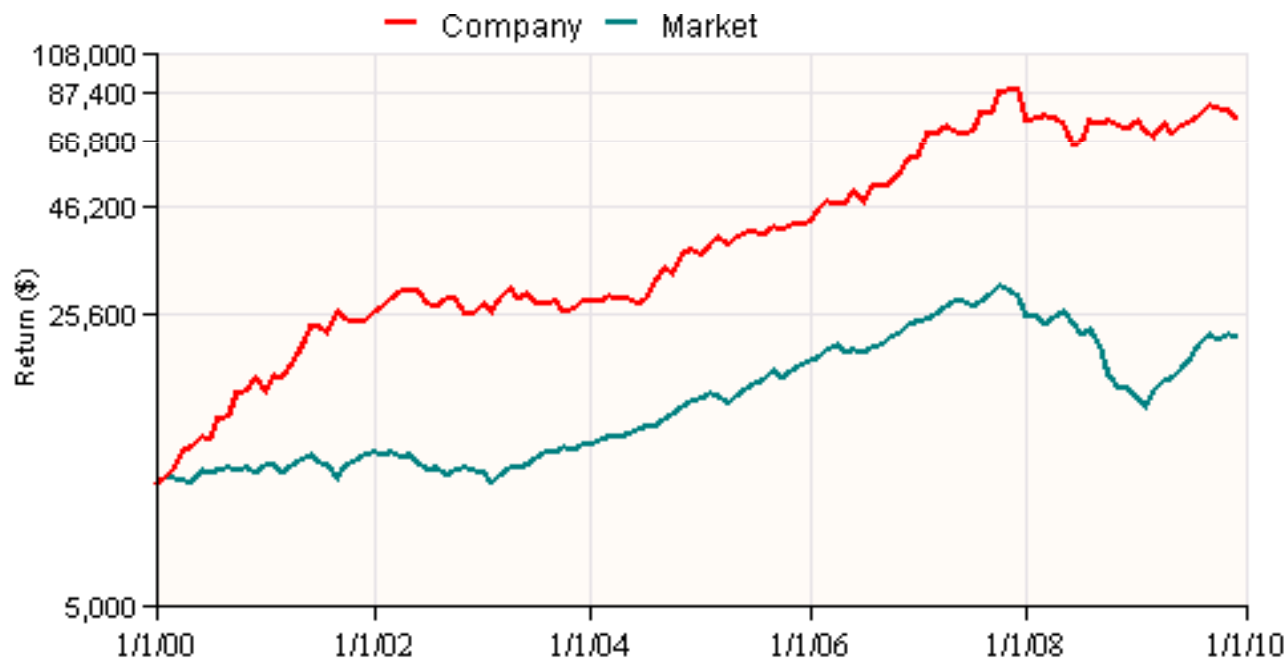
- ◆ Business we like – Company A
 - ✓ Outperformance of ASX200 over 10 yrs – more than 200%
 - ✓ Growth Story
 - ✓ Aggressive market expansion
 - ✓ Huge increase in profitability

Company A



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Company A



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Woolworths

- 💧 Why we like Woolworths
 - ✓ Consistent ability to increase profits
 - ✓ Consistently increasing dividends
 - ✓ Value adding acquisitions at reasonable prices
 - ✓ Low levels of gearing

Portfolio Construction

- ◆ How we construct a direct share portfolio:
 - ✓ 10-15 stocks
 - ✓ Low turnover – buy/hold approach
 - ✓ Stock selection limited to ASX100
 - ✓ Capital preservation is paramount
 - ✓ Diversified across industry sectors



Questions?