

TAX-FREE SUPER PENSIONS safe from government tinkering



IN THE FIRST-EVER APPEARANCE BY A TREASURER AT AN SMSF ASSOCIATION NATIONAL CONFERENCE, SCOTT MORRISON ASSURED THE INDUSTRY THAT AUSTRALIANS WON'T BE TAXED IN THE PENSION PHASE.

□ Tax-free superannuation pensions will be safe from any changes considered by the Federal Government for the

super system ahead of the May budget, Treasurer Scott Morrison told the SMSF Association's national conference yesterday.

Showing the growing importance of the self-managed super fund industry, Morrison's was the first appearance by any Treasurer before a national conference as he flew in especially for the event before flying to Melbourne for high level meetings with the Prime Minister.

Without giving detail on where Treasury would aim its crosshairs for removing tax concessions, Morrison assured delegates Australians would not be taxed in the pension phase as the government looked to provide certainty and stability for the sector.

"Taxing in retirement penalises Australians under rules they thought were there," Morrison said, to applause from the audience.

But he suggested there was a "strong case" for examining tax treatment elsewhere

INSIDE

- 02 Act now on TTR to avoid the budget blues
- 02 I know what I want – and I want it now
- 03 Super should sit alongside tax in regulatory hierarchy
- 03 A big bang at age 65 – the opportunity of a lifetime
- 04 Captured
- 06 Be awake to the warning signs of client dementia
- 06 Why success depends on creating a great client experience
- 07 Managing equity risk
- 07 Take the holistic view and coach clients through bad markets
- 08 The back page

in the system and the government was "getting to the landing point" on a decision as it consulted with peak super bodies including the SMSF Association.

"Right now it's clear we're going to have to make some hard decisions when it comes to address the targeting of these tax concessions going forward," he said.

Concessions, a large proportion of which went to high income earners, were worth anywhere between \$30 billion and \$11 billion to revenue, he said.

Meanwhile the super productivity review, announced on Wednesday, was needed as fees on non-SMSF funds fell just 20 basis points in the past 10 years in tandem with the asset size of funds growing 12-fold. "The super system can do with refining and that's part of the reason people are turning to the SMSF sector. We want to see the sector deliver more options," he said. ■



THE SUPER SYSTEM CAN DO WITH REFINING AND THAT'S PART OF THE REASON PEOPLE ARE TURNING TO THE SMSF SECTOR. WE WANT TO SEE THE SECTOR DELIVER MORE OPTIONS

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ACT NOW on TTR to avoid *the budget blues*

Accountants and financial planners should shift any eligible clients into transition to retirement (TTR) arrangements before budget night in May if they are concerned about possible federal

government changes, said Bryan Ashenden, advice strategies and knowledge senior manager at BT Financial.

This will ensure any moves on TTR scheme changes announced by Treasurer Scott Morrison will be protected by grandfathering provisions for those who are already in the system, he said.

In his session "Is sliced bread better than TTR?" Ashenden said adviser anxiety about possible changes to TTR always peaked a couple of months out from the budget, but he was sure that the scheme would continue to exist.

"If we scrap this ... you've got to question is it the right decision in the long term?," he said

"Yes it should be a concern (for government) receiving less revenue from tax, but there is a social security cost in the long run," he said.

"If you're going to get rid of them, it just doesn't make sense."

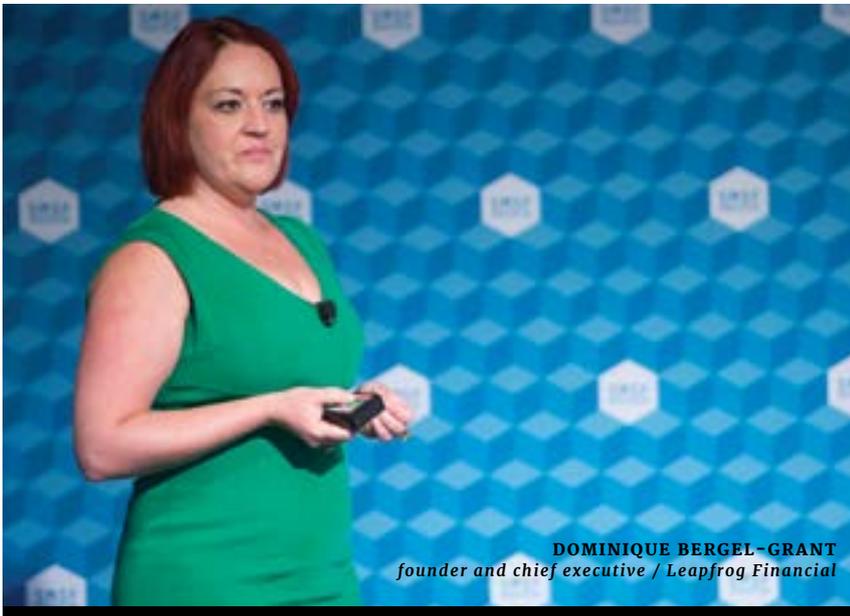
The most common use of TTR is to salary sacrifice at preservation age in tandem with drawdowns to boost long-term superannuation accumulation with a favourable tax treatment.

But if the tax benefits are small or if salary sacrifice fails to result in higher long-term accumulation, advisers tend not to offer TTR to clients, he said.

However, alternative uses for TTR, such as reducing mortgage debt to free up cash, could be considered.

Planners and accountants should not overlook individuals within a couple adjusting contributions, salary sacrificing and pension payments across spouses as a TTR strategy, he said.

However, Ashenden said advisers should take care in their reasons for setting up TTR schemes for clients below the age of 60. If the reason to use the strategy was purely for a better tax treatment it could be sailing close to avoidance territory, he said. ■



DOMINIQUE BERGEL-GRANT
founder and chief executive / Leapfrog Financial

I KNOW WHAT I WANT— AND I WANT IT NOW

Generation Y are the "want it now" generation whose entire world has been online, where more information has been thrown at them than at any other generation.

So how do financial planners and accountants communicate and connect with those aged under 30 who will become their clients down the track, asked Leapfrog Financial founder and chief executive Dominique Bergel-Grant.

"Our role is to be the decision architect" for time-poor under-30s who are searching for a community and a sense of belonging, said Bergel-Grant in her session "Breaking through and attracting under 30 year old clients".

That starts with talking to current clients - the parents and grandparents of the next

generation - and understanding Gen Y's lifestyle aspirations rather than focusing on money, she said.

Forget traditional communications about markets and economics, planners and accountants need to make themselves vulnerable and emotionally connect with under-30s by offering opinions on a variety of topics, she said.

Part of that is building awareness online about what motivates you to do what you do, via a social media platform used by your audience, she said.

"One lesson I've learned is that people buy you, they don't buy a brand, and if you're not on the internet you don't exist," Bergel-Grant said. "Never sell to this generation. You have to give value before they'll even start to trust you."

"They don't want to deal with a faceless brand. You need to be open and share."

Bergel-Grant said she had built her own personal brand around a motivation to take away people's fear, and she hoped to align people's personal and financial goals by offering her views on health, finance and lifestyle.

Her marketing tools included buffer and hootsuite, which allowed her business to communicate with clients and prospects across a variety of platforms with scheduled shares, tweets and downloads. ■

SUPER should sit ALONGSIDE TAX in regulatory hierarchy

RAISING THE PROFILE OF SUPERANNUATION REGULATION WOULD REFLECT ITS HEIGHTENED STATUS AND NOT JUST BE SYMBOLIC, REGULATORS SAY.

L-R: ANDREA SLATTERY / chief executive officer and managing director / SMSF Association; IAN TAYLOR / chairman / Tax Practitioners Board; GREG TANZER / Commissioner / Australian Securities and Investments Commission; CHRIS JORDAN / commissioner / Australian Taxation Office



Regulators are working more closely to ensure higher education and compliance standards are achieved for professionals in the self-managed super fund industry, key regulatory heads told SMSF Association chief executive officer and managing director Andrea Slattery.

In a group discussion opening day two of the SMSF Association National Conference, Australian Taxation Officer commissioner Chris Jordan, Australian Securities and Investments Commission commissioner Greg Tanzer and Tax Practitioners Board chairman Ian Taylor told Slattery of their greater collaboration and moves to bring super alongside tax as a key player and decision maker in the wealth industry.

"We had 68 committees in 260 meetings a year ... we've focused

that down to eight," said Jordan of committees with high-level players from industry bodies and agencies deciding the course of wealth industry regulation.

"Super should be sitting next to tax. It's not just symbolic, but reflecting the status of the industry in our world now," he said.

Tanzer said the strong connection between agencies was in step with an overall desire to lift education, auditing and compliance standards within financial advice and super industries.

ASIC registered 6700 SMSF auditors, at a rate of 10 to 20 a month, with rigorous auditing of educational requirements.

"This is overtly an exercise in raising standards," Tanzer said.

Jordan said the ATO had designed a system for the vast majority of super and taxpayers with only 59 audits of SMSFs going on at the moment.

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He said in 2015 the ATO looked at 2200 registered SMSFs, excluded 300 trustees from the system and placed restrictions on 800 of them.

Problems were focused on trustees inappropriately accessing or withdrawing from funds, or auditors not operating at arm's length from the fund's administration.

Taylor said the TPB, which oversees 77,000 tax, BAS and tax (financial) advisers, had been successful in taking rogue agents to the Federal Court.

Last week a BAS agent was fined \$81,500 for practising while unlicensed and a tax agent was given a \$900,000 fine in May.

"It's obvious that you do a serious thing such as non-complying and the Federal Court comes down hard," Taylor said.

"But it's a small proportion of people. If there are bad people out there, we have to get rid of them." ■

A BIG BANG AT AGE 65 – THE OPPORTUNITY OF A LIFETIME

A CLIENT'S YEAR OF RETIREMENT is a "huge year" for contributions and one of the most poorly understood and overlooked by superannuation professionals, says actuary Meg Heffron.

In her session "Contributions: your strategy roadmap", the head of customer at Heffron SMSF Solutions said there were different issues for different ages of super contributors, but 65 was a key age.

"You might think at 65 that they're past it from a contribution sense," she said.

"But that year you turn 65 is the biggest contribution opportunity of all time. They have one last big bang effort."

Super administrators needed to think strategically around work tests, contribution caps and one-off

payments, using bring-forward rules on non-concessional contributions to take advantage of tax benefits.

Heffron said those heading to retirement, aged between 45 and 65, were a diverse bunch in an important saving phase who needed to consider maximising tax concessions via concessional contributions by using salary sacrifice and watching for key changeover dates to higher concessional caps.

She said that for the youngest group, aged under 45, who had some of the highest accumulated super of any generation at the same age, contributing more to super via salary sacrifice rather than paying more off the mortgage was "mathematically" better but harder to come to terms with in an emotional sense.

However the earlier that young Australians could make payments above the compulsory 9.5 per cent rate the more super they would have accumulated by retirement, Heffron said.

"Paying compulsory super alone is nowhere near enough for retirement," she said, adding that sticking to the 9.5 per cent rate for whole of life would leave retirees with only 30 per cent of their yearly income at retirement compared to year immediately prior.

Heffron, who took part in the Cooper Review, is one the few qualified actuaries working exclusively in the SMSF space and works with financial planning and accounting firms on superannuation strategies for clients. ■

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3 of **4**



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Be awake to the warning signs of client dementia

IT'S A GROWING PROBLEM AS THE POPULATION AGES, BUT ADVISERS CAN BE PREPARED TO DEAL WITH THE ISSUES THAT ARISE WHEN CLIENTS DEVELOP THIS MENTAL ILLNESS.

JOANNE EARL
Associate Professor
Flinders Business School



Self-managed super fund (SMSF) advisers should be aware of the impact that dementia can have on a client's ability to make sound financial decisions, and develop a range of strategies for both identifying problems before they become unmanageable, and helping clients plan.

Joanne Earl, Associate Professor at Flinders Business School, says one in 10 people aged over 65 is likely to suffer dementia, and as many as three in 10 people aged over 85.

Looking at these numbers the other way around, she said, it means 90 per cent of people aged over 65 and 70 per cent of people aged over 85 won't suffer, but the absolute number of sufferers is likely to increase simply because of an ageing population.

It's likely to become a bigger issue for SMSF advisers because the disease is likely to strike as individuals enter the pension phase of superannuation.

"Decumulation coincides with a greater proportion of people going into decline," Earl said.

"We think it could be a problem because of the size of the market and when people are starting to decumulate their funds is when they are likely to be most vulnerable.

"We will potentially have a lot more people presenting with this problem over time just because of the size of the population."

Earl said the progress of dementia typically moves through three stages: mild or early; moderate or middle; and severe or late. It can often take 36 months to progress through the stages.

Earl suggested there are steps advisers can take to mitigate the worst of the potential problems, including preparing clients early on to discuss the best course of action; promoting retirement planning across multiple domains, not just financial; recognising that finances are important but so is health, emotional, motivational and cognitive wellbeing; and planning ahead to avoid more complicated scenarios later, such as having to apply to the Guardianship Tribunal for a financial management order. ■

Why success depends on CREATING A GREAT CLIENT EXPERIENCE

Sound technical knowledge and competence is the foundation of what financial planners and advisers do, but the best client experiences are built on more than that, according to Craig Banning, chief executive officer of Navwealth Financial Group.

Banning told the 2016 SMSFA National Conference that at the end of the day, "clients just want quality advice", but they rate quality on the experience they have dealing with the adviser.

Their perception is based on things like how well the adviser builds rapport and how well the adviser knows and understands what they need.

Banning said the focus recently has been on regulation of advisers' education, professional standards and competence. It has been about "what does financial advice need to look like, in terms of regulation; and what does accounting need to look like, in terms of regulation", he said.

"That's not what the clients are asking," he said, and while advisers must meet their regulatory obligations, it's not compliance that is going to drive success.

"We could be the best technical advisers in the country...but if the client isn't getting [a good] experience out of that, what does that mean into the future?" Banning said.

// WE COULD BE THE BEST TECHNICAL ADVISERS IN THE COUNTRY... BUT IF THE CLIENT ISN'T GETTING [A GOOD] EXPERIENCE OUT OF THAT, WHAT DOES THAT MEAN INTO THE FUTURE?

In an environment where consumers are used to choice and are highly likely to shop around for the best experiences, advisers have been warned.

Banning said there are signs as to whether clients feel they're having a great experience and truly trust a financial adviser. They include the client's propensity to share intimate or personal details with the adviser; clearly valuing the adviser's input into non-financial lifestyle decisions; and, when surveyed, giving their adviser a Net Promoter Score of 80 or higher. ■

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Managing EQUITY RISK

DAVID ITZKOVITS
head of investments,
Sanlam Global Investment Solutions

It is widely accepted that one of the best ways to ensure people have enough saved over the long-term is to invest in the share market. Yet the share market experience is not always positive. Markets are unpredictable with their ups and downs and getting in or out at the wrong time can significantly affect the value of an investor's portfolio.

During the 2008 financial crisis, investors saw tremendous declines in the values of their

portfolios. Diversification, which traditionally had been a solid risk management strategy, proved to be flawed as most asset classes declined at the same time. Although markets have risen considerably since the bottom, uncertainty and volatility remain.

Clients need solutions that allow them to take equity exposure while providing a mechanism to protect them should markets decline. The Sanlam Managed Risk Funds (SMRFunds) are an investment solution that helps manage the risk of investing in equities. The Funds are designed to smooth a client's investment experience, giving them the confidence to stay invested over the long-term.

// CLIENTS NEED SOLUTIONS THAT ALLOW THEM TO TAKE EQUITY EXPOSURE WHILE PROVIDING A MECHANISM TO PROTECT THEM SHOULD MARKETS DECLINE

IN A RISING MARKET

The result is that during a rising market, investors are not fully invested in equities and the investment return will be less than having been fully invested. Yet investors still get to participate when markets rise.

IN A FALLING MARKET

The SMRFunds will most likely outperform from a return perspective, as the SMRFunds are cushioned against the market decline. The overall value of their investment is likely to fall, but not by as much as would have been the case without the cushioning effect of the Sanlam managed risk strategy.

If you would like more information regarding the Sanlam Managed Risk Funds, please visit our website colonialfirststate.com.au/investments

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TAKE THE HOLISTIC VIEW

and coach clients through bad markets

Sharemarket corrections are nothing new, and in fact there have been 11 in the past 30 years, accounting for about one-third of the total time the market has been open over the three decades.

Jeff Johnson, head of the investment strategy group, Asia Pacific, for Vanguard Investments, told the 2016 SMSFA National Conference that the fund manager believes the Australian economy will be "frustratingly fragile" in coming years but it's when markets are volatile and the outlook is uncertain that the value of advice really comes into play.

Johnson said Vanguard believes "investors can have a reasonable expectation of somewhere in the 5 to 7 per cent range for asset class returns in a diversified portfolio".

"In an environment where we expect inflation to be about 2 per cent, that could lead to decent long-term returns," he said.

However, he said the bad news is that "certain investor behaviours, bad practices and biases will get in the way" of those returns. Investors, left to their own devices, will typically fall short of Vanguard's expected returns by as much as 3 percentage points a year.

He said the five most common behavioural biases are loss aversion, overconfidence, self control (favouring short-term gains over long-term gains), cognitive dissonance (failing to change one's mind even when all available evidence contradicts one's view), and groupthink.

Johnson said the difference between expected and actual returns can be accounted for by "adviser's alpha": the value that advisers can add

// INVESTORS CAN HAVE A REASONABLE EXPECTATION OF SOMEWHERE IN THE 5 TO 7 PER CENT RANGE FOR ASSET CLASS RETURNS IN A DIVERSIFIED PORTFOLIO



JEFF JOHNSON
head of investment strategy group, Asia Pacific
Vanguard Investments

to a client's portfolio by adopting a holistic and strategic approach to planning, and helping clients remain disciplined in poor markets.

"If 7 per cent is on offer [investors] will earn about 4 per cent and the 3 per cent is the adviser's alpha - but it requires quite a transformation in the nature of the advice we provide," Johnson said.

It requires a move away from the traditional focus on aiming for outperformance, picking winners, focusing on security or manager selection and seeking to time markets. It requires a move towards tailored asset allocation, sound portfolio construction, behavioural coaching and holistic planning.

And by far the most value advisers add - almost 2 percentage points - comes from helping to moderate client behaviour, and ensuing frequent portfolio rebalancing, Johnson said. ■

SCHRODINGER'S PENSION

Can a pension exist in two states simultaneously? That was the question put to the conference yesterday by DBA Lawyers special counsel Rebecca James as she explored the idea of whether a superannuation benefit can be paid simultaneously as a lump sum and a pension (or at least we think that's it). To explain her point she referenced German physicist Erwin Schrödinger and told a fantastic joke. You may have to understand something of quantum physics and the work of Werner Heisenberg and Schrödinger (of Schrödinger Cat fame) to truly get it (or else resort to Google), but here it is: Heisenberg and Schrödinger get pulled over for speeding. The policeman asks Heisenberg, "Do you know how fast you were going?"

Heisenberg replies, "No, but we know exactly where we are."

The officer looks at him confused and says, "You were going 140 kilometres an hour."

"Oh, great," Heisenberg cries. "Now we're lost!"

The policeman looks over to Schrödinger and asks if the two men have anything in the boot. "A cat," Schrödinger replies.

The policeman opens the boot and yells, "Hey! This cat is dead."

"Yes, well," Schrödinger angrily replies, "it is now."

One lump or two?

ALL THE ACTION WAS IN THE EXHIBITION HALL ON WEDNESDAY, WITH PARAMEDICS CALLED TO ATTEND TO ACT2'S HELEN MOLLOY, THE VICTIM OF A BUMP TO THE HEAD WHEN PART OF THE COMPANY'S STAND COLLAPSED AND COLLECTED HER. TAKEN TO ROYAL ADELAIDE HOSPITAL, CONVENIENTLY LOCATED JUST A SHORT DRIVE UP NORTH TERRACE, MOLLOY WAS TREATED AND RELEASED ON WEDNESDAY AFTERNOON. SHE WAS BACK ON THE ACT2 STAND FIRST THING YESTERDAY MORNING, TROOPER THAT SHE IS, ALBEIT WITH THE EFFECTS OF THE PAINKILLERS STARTING TO WEAR OFF AND A DECENT SIZED EGG ON HER FOREHEAD. MOLLOY'S MISFORTUNE RATHER DISTRACTED FROM THE PERFORMANCE OF HER COLLEAGUE ANDY O'MEAGHER, WHOSE "YOU DON'T NEED AN ACTUARIAL CERTIFICATE, YOU NEED AN ACT2 CERTIFICATE" VIDEO PERFORMANCE WAS A STAND-OUT DURING THE CONFERENCE. WINK!



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DON'T I KNOW YOU? PART II

The tables were turned on Treasurer Scott Morrison when he found himself in the back of an ambulance recently in his home state of New South Wales.

Used to being the more recognised family member, Morrison was surprised when paramedics asked him if he was the brother of Alan.

Older brother Alan happens to be a superintendent in the NSW Ambulance Service.

Morrison said it gave him a "a great sense of comfort" to think that the paramedics would take special care of him, knowing he was the brother of the boss.

Morrison gave no hints as to what happened at the time, but it appears the paramedics did their job well.

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