Supervision GROUP

EDITION: FEBRUARY 2023

THE TRUSTEE

The SMSF newsletter that keeps you informed and in control.

INSIDE THIS EDITION

Est. 2002

Welcome

Welcome back to “The Trustee”, 15 editions in and still so much to talk about.

It is predicted that 2023 will be a year of recession and financial hardship for many people. The following factors seem compelling- inflation is running high, interest rates are going up, war in Europe rages on, China has slowed, and 800,000 fixed rates mortgage holders are about to face the open market.

What does this mean for you and your SMSF?

Term Deposits are beginning to provide an alternative investment opportunity. Many retirees will be relieved that part of their investment portfolio invested in cash deposits can begin to provide a better return. A burden for mortgage holders turns into a positive for members who have already paid off their home loans and rely on low-risk investments like Term Deposits. Inflation ultimately destroys buying power over time, but if your investment strategy contains a certain percentage of cash as a defensive asset then this part of your overall return will improve. If you are now becoming interested in “interest" speak to your adviser or you can view current interest rates on our default platform – Australian Money Market.

When investing, sometimes you need only to look at your own position to understand what businesses will be successful or unsuccessful. It doesn’t always correlate with selecting the right investment but analysing your own sentiment and your consumption patterns can offer some insights.

If you are a mortgage holder like me, there is no real joy in rising rates. My personal spending and investment decisions will need to be more discerning. Many businesses that rely on discretionary spending will be impacted which may be reflected in their profit reports next year.

Higher unemployment whilst undesirable (in the bigger picture) can lead to a decrease in wage inflation which for many businesses is their biggest expense, resulting in higher profits. So, whilst stormy economic times will present challenges for many people and is overwhelmingly negative for the majority, it does provide opportunities for savvy investors.

Profitable businesses never go out of fashion and the removal of cheap finance will direct investors to quality assets where the business model is sound.

Salary Sacrifice or personal contributions into Superannuation should still be part of your accumulation strategy despite a reduction in discretionary spending. Doing so will reduce your take home pay (or cash account balance), but it will reduce your personal income for the year resulting in less tax. We are constantly shocked that Trustees don't know or understand catch up concessional contributions. If your personal tax is high, or as a couple you have reasonable combined incomes, you need to look at this opportunity to reduce your overall tax burden and make major headway into boosting your SMSF. It may be an alternate to borrowing large amounts of money to buy an investment property at today's increased interest rates.

You may notice in the coming months we start asking different questions than we have historically. Plans are underway to evolve our compliance business to provide more support to your financial adviser or to you directly (if you don't have an adviser). Compliance will still happen, but we will move the needle on what an accounting firm does in the SMSF space. We are anticipating various megatrends impacting you, like the coming wave of intergenerational wealth transfers. To provide this guidance we will need to have different conversations with you than we have had in the past.

It is always a privilege to create "The Trustee" for you. We hope that you enjoy. Please provide feedback on any of the articles or any interaction. We are always happy to get your response.

Christopher Homer
Director

Feature Article – ETFs Make SMSF Investment Easy, Transparent And Affordable

*Written by **Norm Robinson** - Sentinel*

Exchange Traded Funds (ETF's) are conveniently pre-packaged 'bundles' of securities (such as shares), traded on the Australian Securities Exchange (ASX). ETFs give you exposure to many different securities, all in the one basket.

Because each ETF has its own ASX code they are easy to identify, track, buy and sell. They are also completely transparent. In other words, information is readily available about the companies that are included in each ETF and how they are performing.

Each ETF is unique. Some are designed to track an index, others invest in the strongest companies in a sector, or follow a set of rules to achieve asset growth or high income. Advantages include:

User-friendly

- Easy to trade, just like an ordinary share.
- Rules-based, pre-selected quality stocks that can respond to the ebbs and flows of the market.
- You don't have to know what you own within an ETF, but the information is readily available if you want it.
- Easy to manage.
- Simple to report.

Diversification made simple.

- Access to all corners of the market, both at home and overseas.
- With more than one ETF in your portfolio, you're diversifying on diversification.
- Easier than simply picking stocks and trying to 'read' the market.
- With one purchase you can get exposure to an entire sector, commodity, or index. Success does not depend on a single entity.
- Designed to protect and grow wealth by reducing the impact of market volatility.

Perfect building blocks

- Unlike a fixed-term investment, you can cash out at any time.
- ETFs operate to clear rules.
- Select 'themes' to match your goals, preferences and values.
- Opportunities to invest with your heart, not just with your head.
- ETFs and self-managed super funds (SMSFs) are made for each other.
- Quick and easy way of balancing an existing investment portfolio.
- Indexing's low turnover minimises capital gains, improving long-term performance and tax efficiency.

The dollars and cents

- ETFs generally have low fees that are clearly disclosed and built-into the price of the ETF.
- Trading (brokerage) fees are charged per ETF, not on the individual components within the ETF.
- Trading on the stock market means ETFs have Real-time, intra-day pricing.

How do I get started?

Speak to your Financial adviser about how ETFs would suit your objectives and risk profile. Platforms like Sentinel support advisers so we (Sentinel) would welcome a call from your adviser.

Sentinel

If you do not have a financial adviser, Sentinel provide an easy way to design, refine, implement, monitor, report and review your investments with confidence and structure. You can be as hands-on, or as hands-off, as you like.

Default Bank Accounts – Why do we have them?

You may be wondering why we have default bank accounts for our SMSF clients. The answer is straight forward. We want our clients to save money on administration fees and save themselves time at Audit time.

We can reduce your admin fees because the bank (ANZ V2 Plus) pays Supervision a fee based on your account balance. This fee is paid to Supervision as a reward for creating business for the bank without the expense of advertising and marketing.

Default bank accounts provide Supervision with the means to download documents for Audit each year. We use data feeds to eliminate this requirement, but from time-to-time Auditors need to see closing balances on statements. We also use this as a spot check to make sure data feeds are correct.

The ANZ provides a dedicated customer service person to Supervision to help when things go wrong. No more holding online.

We have sent out communication to some clients with Macquarie accounts to shift to the ANZ. If you have received this email asking for your support, please consider all the advantages of switching to the ANZ V2 Plus account as a default. We also thank those that have accepted the offer. It will make a difference to your interest and to our business model so it’s a win for all.

If you already have an ANZ V2 Plus account, thanks for supporting the business model that has been successful for so many years.

Do you have a Depreciation Schedule for your SMSF Property?

Claiming depreciation on property assets in your SMSF reduces your SMSF tax.

If you have purchased a property, please consider a depreciation schedule to boost your returns. The building component of your property decreases in value over time as they wear out. This expense is available to offset income from rent, thus reducing tax.

If you have done any major capital work on your property after purchasing the property, this work may be eligible for depreciation. Without a properly prepared schedule, we are unable to claim a deduction.

If you need a depreciation schedule, please speak to Asset Reports and mention **Supervision**. You will receive a discount and a promise that if the cost of the report does not cover your tax deduction, they will not complete a report for you.

Indexation $1.9 Million Pension Cap

From the 1st of July 2023 the pension cap will rise to $1.9 Million from $1.7 Million ($1.6 Million originally).

100% of the Cap

All pensions have a pension cap commencement % figure relating to when they started their pension. For example, if you started your pension with the value of $1.6 Mill and the cap in that year was $1.6 Million, you used 100% of the cap. This means you can't add to your pension again unless you have taken lump sums out of the pension account over time and reduced your pension cap percentage.

Less than 100% of the Cap

If you did not use all your pension cap when you commenced your pension, you are able to use the increased cap to put more into pension phase but not the whole $ amount. As a guide, Joe started a pension in 2021 with $850,000 (50% of the cap of $1.7 Million). Because the pension cap will increase by $200,000 only 50% ($100,000) of the increase can be added to his pension cap on top of the $850,000 that he didn't put into pension phase at the time. Joe would be able to only put $950,000 into pension phase rather than $1,050,000.

Starting a Pension

If you plan to start a pension now, it may be advantageous to wait until the 1st of July 2023 to either get more into Superannuation or establish your pension with a lower percentage of the cap.

If this is confusing or does not make sense to you, you are not alone. This messy complex system will get even more difficult as indexing gives us more than 3 cap amounts. We can share with you a pension cap report which will give you some certainty over your ability to add more accumulation into pension phase. This meeting may require some preparation so please book in advance. If you do add more to your existing pension, you will require pension commencement documentation.

How to spot Scammers – What is a URL?

The internet is full of scams and phishing attempts, and scammers are constantly coming up with new ways to trick you into giving them your personal information or money. One of the easiest ways to spot a scammer is by analysing the URL of the website they're trying to direct you to.

A **URL**, or Uniform Resource Locator, is the address of a specific page or file on the internet. Think of it like the address of a house, just as you need an address to visit someone's house, you need a URL to access a specific website or page on the internet.

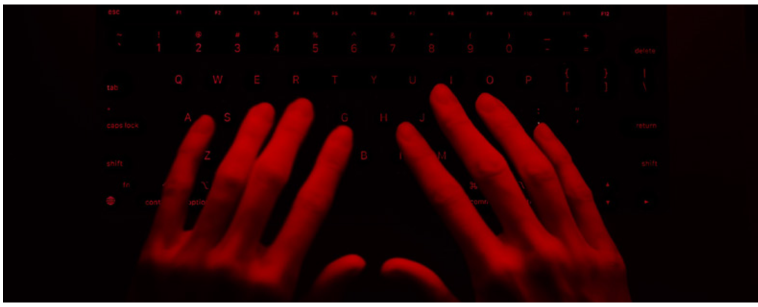
Here are some tips on how to do this:

Check the URL carefully: Look at the entire URL, not just the website name. Scammers often create URLs that are very similar to legitimate websites, but with slight differences, such as using a different domain extension or adding extra words to the URL.

Look for the padlock icon: A padlock icon in the address bar of your browser indicates that the website is using SSL (Secure Socket Layer) encryption to secure the connection between your browser and the website. This icon is a good sign that the website is legitimate and not a phishing attempt.

Check the domain name: If the domain name of the website you're visiting doesn't match the name of the website you intended to visit, it's likely a scam. For example, if you intended to visit "amazon.com" but end up on "amzaon.com", it's a clear sign that you've landed on a phishing website.

Look for unsecured websites: If the website you're visiting doesn't have SSL encryption, it's likely not a secure website. Unsecured websites are often used by scammers to collect sensitive information, such as passwords and credit card numbers.



Be wary of short URLs: Short URLs, such as those generated by bit.ly or Tiny URL, can be used to hide the true destination of the link. Before clicking on a short URL, hover over the link to see where it will take you before clicking on it.

In conclusion, by analysing the URL of a website, you can easily spot a scammer and avoid falling victim to a phishing attempt. Always be vigilant when browsing the internet and if something seems too good to be true, it probably is. Don't hesitate to leave a website if you have any doubts about its legitimacy. Your online security is worth the extra effort.

What can my SMSF do for me before retirement?

Compound interest was claimed to be the eighth wonder of the world by Warren Buffett. I know everyone is sick of his quotes and fortune cookie wisdom, but that one is worth knowing- because it applies to everyone and is a fact.

It's never too late to build wealth, but time plus compounding interest is a mathematical certainty, so the earlier people start contributing to any form of savings the better the outcome is going to be.

The problem is and will ever be, that unless you were born into money, your youth is dominated by mortgages, school fees, busy work or businesses, and life in general; it doesn't leave a lot of room for savings or time to worry about Superannuation.

The good news is that the Government made Superannuation compulsory (paid by your employer) and gave tax incentives to encourage you to put more money into Superannuation.

By using the inherent tax incentives now and contributing to Superannuation either as salary sacrifice or personal contributions, you can save personal tax **now**, giving you more money to save.

Engagement in your SMSF's investment strategy is teaching you about investing every day. Lessons learned by you are not only important for yourself but for your extended family now and into the future.

Passing on knowledge and understanding of financial matters is very important to build your families wealth over a longer period. Retained financial wisdom pays a recurring dividend during your lifetime as your children become more self-sufficient. Investment trends will come and go, but principals of accumulation and growth remain the same and need to be taught- they are not inherited.

Quick Supervision SMSF Stats

This table shows the percentage of SMSF’s in certain $ value bands.

$Value	Percentage Of Clients
$0-150K	23.39%
$150K - 500K	43.73%
>$500K	16.27%
>$1MILL	8.81%
>$2MILL	5.08%
>$4MILL	2.71%

FAQs with Shish

Hi, my name is **Shishpal Rana**, but the team call me Shish. My role is to review your SMSF returns each year and guide you through the annual audit process. I want to make you aware of a particular problem that I have seen.

What will happen if someone loses mental capacity without an Enduring Power of Attorney in place?

Scenario – John loses mental capacity and do not have an EPOA in pace. What's going to happen next?

If John loses mental capacity (i.e., they have lost the ability to understand the nature and effect of their actions) without having an enduring power of attorney in place, it is too late for John to have one now. Without an enduring power of attorney there may be no one with the legal authority to manage the individual's financial affairs.

In practice, this means the individual's family or advisers would need to apply to the relevant state/territory authority to have someone appointed to act for them. In relation to financial decisions, this person would become the individual's administrator. In relation to personal and health decisions, this person would become the individual's guardian.

Scenario – No one is available to fulfill the role of legal authority. What's going to happen next?

Where there is no-one available/suitable to fill the administrator/guardian role, the relevant tribunal may appoint the Public Trustee/Public Guardian who will usually charge a fee for their services.
The process to appoint an administrator and/or guardian can take many months.

Editorial – Can Superannuation Make Housing Affordable?

There is currently media speculation about industry Superannuation funds investing into social housing to improve housing affordability. Relative to average wages, homes in Australia are more expensive in historical terms, and many have given up on the dream of owning one. Renting a house is also getting very difficult for people on medium and lower incomes.

Demand for housing has been greater than the supply in some markets- so the prices have been going up- it's as simple as that. Either demand must fall (interest rate rises usually fix this problem) or supply must increase (usually harder to manufacture), to find an equilibrium. Recent property price falls on the East Coast, point to a cooling of demand.

Increasing the supply of housing to meet demand is the only sustainable and the least market distorting way to give lower income earners the ability to rent or own their own homes. If this part of the property market was profitable for free enterprise, the housing affordability gap would be far less at this time. Increasing supply is a much harder problem to fix but is the longer-term solution. Tax incentives for real estate investors who build capacity in the market are already in place and are generous compared to other countries.

So where does the Superannuation industry fit into this picture?

Currently a Trustees job is to provide a return for your members in line with their risk profile. This central tenant is baked into the constitution/deed of every Superannuation Fund. Industry funds have various mechanisms to deal with members risk levels, but many of the members neglect to implement their own preference and fall into the default settings.

If Trustees of Superannuation Funds are forced into purchasing housing projects developed by Government,

there is an inherent risk to unaware members if the housing project does not provide returns.

As human beings and members of society, we should be extremely understanding and empathetic to our fellow Australian's. As silly as this sounds, a Trustee is not a human being, it's a role. Their only job now is to provide members returns in line with their risk profile.

I would be sympathetic to the argument that the role and responsibility of Trustees could evolve to undertake broader social issues like housing as part of the overall strategy. What people must understand is that if Trustee are forced, or come willingly to multiple priorities, it will have an impact. Blurring of a Trustees responsibilities could make decision making extremely difficult without strict guidelines especially if interpretation is required.

We should be sophisticated enough to provide social dividends with our investments without it impacting returns in a big way- especially large industry funds with billions invested. Big and small investors putting money where their heart is can have positive effects for all. Australia needs to find a solution for this issue as soon as possible as a strong nation should not have structurally homeless citizens.

My problem with this or any other movement away from Supers' fundamental principles (Sole Purpose Test) is the idea that somehow Superannuation money is a pool of money that can be tapped, borrowed, or used when a difficult societal problem can't be solved or funded. The money that you put into Superannuation belongs to you. The Trustees role is to look after your money and give you the best possible return. If the principles are tweaked to align with societies progress, fair enough, but we need to do so with our eyes open and with the possible consequences (possible reduced returns) in front of us.

If Super is used to fund social housing which is considered a worthy cause, then what about the next worthy cause? If Government can influence Superannuation Funds to change their investment strategies and the role of Trustees, even in minor ways, how can we distinguish between an Industry and Government fund? Government funds were avoided in the original Superannuation blueprint to remove the debate we are having right now about who is going to fund Governments responsibilities.

It is understood that change and progress is inevitable. The trick is to make sure that successful principals are not undermined in the process.

Supervision GROUP

The Team behind SMSF Services

PERTH OFFICE
Pina Reid
Client Services Manager

Shishpal Rana
SMSF Manager

Leanne Wise
Client Services Manager

Taylor Reid
Client Services

Christopher Homer
Director of SMSF

Clinton Reid
Managing Director

CLARK PHILIPPINES OFFICE
Ronnel Valencia
Senior Accountant

Mark Mendoza
Senior Accountant

The Team behind Business Services

PERTH OFFICE
Leanne Gilmour
Client Services Manager

Tejas Gigi Veliyannoor
Accounting Assistant

Melissa Liveris
Senior Bookkeeper

CLARK PHILIPPINES OFFICE
Joy Sanchez
Senior Bookkeeper

Contact us
South Perth Office
Ground Floor, 76 Mill Point Road, South Perth, WA, 6151

Phone: 1300 693 863 or 08 9367 9655 or 08 9388 6999

Postal Address
PO Box 879, South Perth, WA, 6951

New Enquiries: info@supervision.com.au