Supervision GROUP

EDITION: OCTOBER 2020

THE TRUSTEE

The SMSF newsletter that keeps you informed and in control.

INSIDE THIS EDITION

Welcome

The Trustee is designed to help raise questions and opportunities for our SMSF clients. It is extremely exciting when you read an article which gets you calling your adviser or Supervision. We hope there is something in this newsletter for you. If you have other questions that you want answered, don't hesitate to contact Supervision today.

This month, I was personally very interested in a report created by Stockspot called the **"Fat Cat Funds Report 2020"**. You may have seen it reported by mainstream media outlets. Chris Brycki CEO of Stockspot has put a lot of effort into researching the worst performing Superannuation funds. The report is here: *https://www.stockspot.com.au/fatcat*. Well done to Chris for putting together this insightful report to shine a light on Australian's second biggest asset. It is well worth checking out.

Christopher Homer
Director

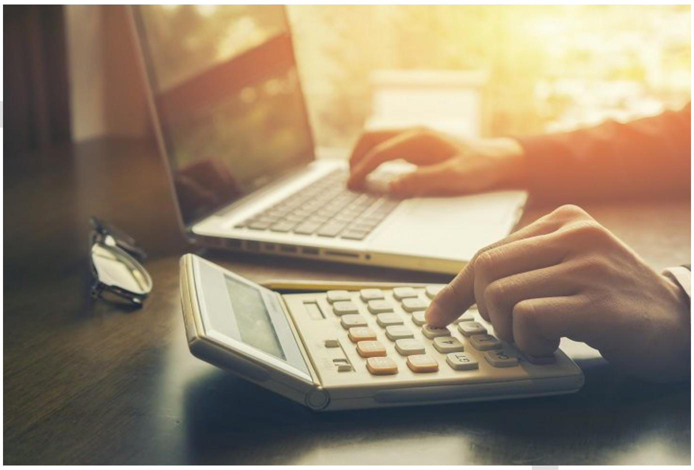
Feature Article – Why Use a Broker?

Recently **Jeremy Wealleans** from Finext provided Supervision clients an insightful presentation on the value that a broker brings for commercial and residential borrowing. This article is based on Jeremy's well put together argument that mortgage brokers add enormous value in the search to find the most suitable loan solutions for clients. Here is a very brief summary from the presentation. Thanks to Jeremy and Finext for helping Supervision provide this informative Breakfast.

Today more than ever, people are better informed about the mortgage market. This means it is literally a few clicks to compare interest rates available for some forms of borrowing. Whilst this is an amazing advantage for consumers, are interest rates the most important thing when it comes to getting a loan?

The answer is definitely no. There are many things that can make the interest rate better or worse than it seems on paper. The terms of a loan can easily be overlooked and their impact not fully understood; which comprise of fees and charges, security type provided, the lender's conditions, consideration for appropriate asset separation and some smarter ways of structuring borrowings so as to make it work better for you. If done right, these can end up saving thousands of dollars and potentially wipe years off loan repayments.

One example given of a business owner and property investor with a large portfolio of commercial and residential properties. An overall interest rate reduction of 0.9%, transformed into a saving of $134,000 and a loan term reduction of nearly 9 years without an increase in total repayments. It was done with clever restructuring of all loans, together with appropriate cashflow adjustments to generate savings on the home loan.



Being able to separate assets by having more than a one lender is also a worthwhile strategy for consideration that people often overlook.

It is normal for lenders to tie up as many assets as possible to secure their loans, leaving you vulnerable if circumstances change, whilst the lender has all the leverage. A broker may be able to explore the impact of separating your assets and giving you back control over your financial situation by getting one or more titles back.

Especially for business and investment borrowers, a simple renegotiation of your loan after a period of time has passed is really important. If your business is doing well, you may be able to strike up a better deal now, rather than leave it to the bank to renegotiate when it suits them to do so.

When borrowing, some people can be reluctant to move to a lender outside of recognised brands. It is always important to understand that they are lending you money, not the opposite, so there is little downside in moving if the lender is offering flexibility and better loan terms and conditions etc. Remember, it is a broker's job to scan the marketplace for all possible loan products available, at terms and conditions that suit your personal circumstances. It is very hard for a single bank lender to be able to give that type of service because they are limited in the range of options which they have available.

Corporate Trustees

According to statistics, **61%** of SMSF Trustees in Australia today are companies. This leaves the remaining **39%** as individuals. Of all the newest SMSF's being created, **82%** are created with companies acting as the trustee. These statistics point to a legacy issue of older SMSF's being established with individuals as trustee.

15 years ago, and earlier, most people established their SMSF's as individuals because the benefits at the time did not warrant the cost. Clients and advisers didn't foresee the impact that death and divorce would have on SMSF members with individual trustees.

The reason that 82% of all new SMSF are established with corporate trustees are as follows:

• All investments held by your SMSF are in the name of the Trustee. If the trustee changes, every investment must be changed to match the new Trustee. Removing one individual trustee means all holdings need to be updated.

• Corporate Trustees last forever as long as the annual fees are paid. Removing Directors is as simple as a single ASIC form.

• Making changes to registries and government bodies takes excessive amounts of time and stress to members. Would clients suffering the loss of a lifelong partner want to deal with these impediments?

• SMSF's Trustee companies have a special status where they do not need to lodge tax returns or pay the full company registration fee.

• The cost of establishing a corporate trustee with Supervision is only $899 (New Fund) and $990 (Existing Fund). The annual fee to renew your corporate trustee is $54. The cost to transfer shares for changes to trustees is $50 + per holding. Getting a lawyer to prepare documents for Landgate (Property Title changes) transfers is around $1,000.

Ideally creating your SMSF with corporate trustees from the start is the cheapest and easiest option. Our advice to clients who have individual trustees is to bite the bullet now while you still have the energy and time to deal with the all paperwork. At the very least you can share the work with your partner. The alternative is much less appetising. Call the office to book a meeting to discuss creating a corporate trustee for $990.

6 Member Funds

Life is difficult, why would you make your Superannuation even more difficult than it already is by creating an SMSF with 6 members?

Currently **70%** of all SMSF's in Australia today are **two member funds**. Whilst the number of SMSF members being capped at 4 members was always an arbitrary number, is there a real reason why anyone would establish a 6 member SMSF?

If you could get over the investment strategy complexity created by varying risk profiles and investment philosophies of 6 people, there is a case for multiple generational tax savings provided by carried forward capital gains losses.

Losses created by earlier generations who are enjoying a tax-free pension could be passed on to the accumulators as a large tax-free kicker for investments that realise gains. In many SMSF's, carried forward capital losses are "lost" when both members go to pension phase. Whilst this is no disadvantage to the pension members as they have no capital gains tax to pay, it is a shame to lose them especially if other people in your family could enjoy them.

More members should reduce the overall burden of SMSF members share of fees. If SMSF administration and accounting fees remain the same, then conceptually you would be dividing expenses between more people and therefore increasing returns for individual members.

Supervision has not had an internal conversation about increasing fees for 6 member funds (we only talk about things when they are legislated), but it is clear that if members increased by 50% (4-6 members), we would not be increasing fees by the full 50%. Audit fees which we include in your SMSF fees may increase if more members were added.

We believe that SMSF's with two members with decent balances are already extremely cost effective. 6 member funds would take that saving to an extreme but is the additional organisational work worth the savings?

Our experience is that most multi-generational SMSF's established for cost savings reasons are unwound and the members go their own way. The major reason is that older generations are not willing to take the same risks as accumulators in the SMSF who have more time to make up any potential losses created by riskier higher growth assets. It is a normal that people in retirement phase want to take less risk with their Superannuation even if they have many years in retirement.

Binding Death Nomination's – Lapsing & Non-Lapsing

Supervision would like to remind all of our clients that in order to create certainty of beneficiary if you pass away, binding nominations can be a solution. A Binding Death nomination is a document that instructs Trustees how and what to pay your nominated beneficiaries in the case of your death.

It is a written document, signed by the member and witnessed by a person who has not been named as one of the beneficiaries. It clearly names the beneficiary and percentage of the benefit they will receive. The nomination also defines whether it is lapsing or non-lapsing. Lapsing nominations will expire after 3 years. Non lapsing documents will not expire.

Which one should you choose?

The benefit of **lapsing** is that you are forced to reassess your personal circumstances to determine if you still want to nominate the person you have already nominated. As the nomination will expire after the period of 3 years, if you forget to complete a new nomination you are leaving it to the remaining Trustees discretion if you pass away. In contrast, the **non-lapsing** nomination will avoid the problem of not having a nomination in place, but again if you forget who you have nominated and circumstances change, again the wrong people may be able to receive your benefit.

The answer to what type of nomination you make, ultimately depends on your circumstances. If you can envisage your circumstances changing, lapsing nominations are for you.

Pension – Reversionary Beneficiaries

You are able to nominate a person to become the owner of your pension when you pass away.

The person that you nominate is known as the **reversionary beneficiary**.

In simple terms your pension will revert (transfer) to the nominated person on the day of death. The pension will not stop but will continue on until the beneficiary has exhausted the pension or has decided to take the remaining amount as a lump sum payment.

If the reversionary pension is your only members account in the SMSF, upon your death your member balance will be zero and will have no part to play in your estate planning or will. This is because the pension reverts to the beneficiary immediately.

A reversionary beneficiary nomination is an elegant solution for husband and wives who wish for 100% of their members entitlements to go to the remaining spouse. It removes the need for binding death nominations as the deceased members will have nothing to distribute. There are no decisions required at that time and no additional documents are required to sign to keep it in operation.

There are complications for people with large SMSF balances over $1.6 million in pension phase, but there are solutions for this scenario. If you need more information about this, please feel free to reach out and find out more.

Audit Reports

Trustees are required to appoint an auditor each financial year to conduct a mandatory audit of their SMSF. The auditor is required to report their findings to the trustees in the form of an audit report.

Below represents a summary of what trustees should be looking out for when reviewing their audit report:

1. This annual audit must include both a financial and compliance audit.

2. The auditor needs to express an opinion for each part of the audit (I.e. they need to give a separate opinion on both Part A and Part B). These opinions can be what is referred to as a qualified opinion or unqualified opinion.

3. Each part of the audit report (Part A and Part B) will contain two sections that we would encourage you to review:

- **a. Approved SMSF Auditor's Opinion** – This will state whether the auditor has provided a qualified or unqualified opinion
- **b. Basis for Opinion** – This will provide the reasoning for the auditors opinion.

4. The opinion the auditor makes on Part A will be based upon whether they believe the fund's financial statements fairly represent the financial position of the fund.

- **a. Unqualified Opinion** – Financial statements fairly represent the financial position of the fund
- **b. Qualified Opinion** – Financial statements do not fairly represent the financial position of the fund
  - **i.** An example of a Part A qualified opinion could arise where an auditor is unable to determine the value and recoverability of a fund asset. This could be due to the trustees failing to provide the auditor with a formal valuation that can be relied upon.

5. The opinion the auditor makes on Part B will be based upon whether the trustees have complied with certain superannuation law provisions.

- **a. Unqualified Opinion** – Trustees have complied with all superannuation law provisions
- **b. Qualified Opinion** – Trustees have not complied with all superannuation law provisions
  - **i.** In the event Part B is qualified, the ATO are made aware of what provisions the trustees have not complied with
  - **ii.** An example of an event that could result in Part B being qualified by the auditor could arise when the trustees of the fund withdraw an amount of money from the superfund and use this money for personal purposes. This would be deemed a "loan to a member" within the fund, which is breach of the compliance laws.

Enduring Powers of Attorney

COVID-19 has clearly illustrated how unexpected events can happen to all of us. Many SMSF's believe that because they have Powers of Attorney in place, they are covered for all eventualities in their SMSF. In the case of death or incapacity, they will be covered. Mental incapacity however is one situation that only an enduring power of attorney can remedy.

Superannuation law allows an EPOA to act in the place of the member without it causing the fund to cease being an SMSF.

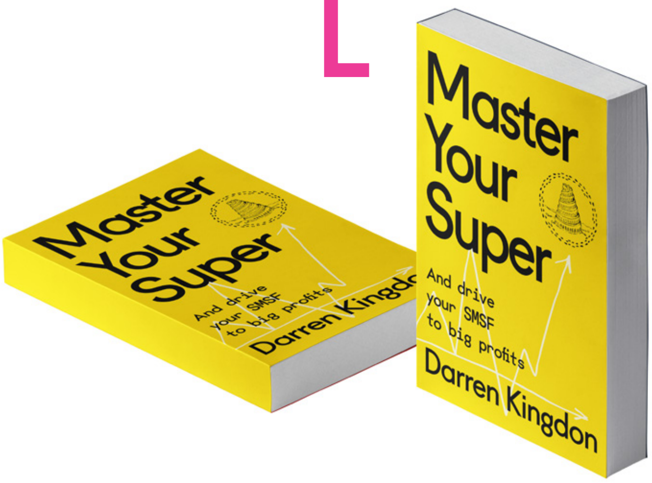
The EPOA is a legal agreement that allows a member to appoint another person to make financial, personal, medical or property decisions for them, in the event they are not able to act. This arrangement can be temporary or on a permanent basis.

The person named in the EPOA will be able to take over the everyday running of the SMSF for that member including making all of the decisions for investments, tax and compliance. Effectively the person named in the EPOA becomes the Trustee for the affected member.

Discount Offering “Master Your Super”

Darren Kingdon has graciously extended his discount book offering to Supervision clients.

To receive **20% off your purchase**, please follow the instructions below:



1. **CLICK HERE TO PURCHASE:** *https://www.masteryoursuper.com.au*
2. **ENTER THE CODE: HOMER20** in the “INSTRUCTIONS FROM BUYERS”
3. **RECEIVE YOUR REFUND** WITHIN 24-28 HOURS OF PURCHASING.

– Editorial Content –
Increasing Superannuation Guarantee

Currently a debate is going on about increasing Superannuation Guarantee payment to workers and the impact that will have on wage growth and the economy more generally. Whilst we live in unprecedented times, whenever change needs to be implemented, there is always a good reason to delay it.

The argument that employers can't afford a raise in SG contributions has been talked down by former Prime Minister Keating who cites increasing company profits and productivity gains as proof that increases are doable. Whilst the overall Australian economy has seen higher company profits and productivity gains, these improvements may not have been felt by every business, and some industries may have achieved much higher rates of both. With unemployment set to jump once many businesses are cut from Government incentives and schemes, it is a legitimate question about how many jobs an SG increase will cost the economy.

There is also a growing opinion that wage growth has slowed due to employers having to pay more in Superannuation, removing the ability for companies to increase wages. The statistics that Keating has put forward would tend to debunk that theory. Regardless of what has caused slowing wage growth, an increase in your SG contributions is a wage increase now, enjoyed at a later time. For many younger Australian's that is cold comfort to immediate needs, but compound interest tables can put an end to those worries.

The Superannuation Guarantee has formed the basis for Australia growing its pool of retirement savings to become the envy of the world.

Without a specific amount of money put away each pay for many employees, Government pensions would be the only source of retirement income for many. The system relies on compulsory acts to make it work. Any removal of central Superannuation tenants has major impacts. Recent early release illustrates how quickly the system can become wobbly when one of the major planks of Super protection is removed.

As a country, we must decide what level of compulsory Superannuation is enough to provide a desirable retirement and then work as quickly as possible to get to that level. If it is 15%, then we must do what it takes to get there quickly, take the hit, and get over it. Long tailed movements to targets may ease short term pain, but lead to endless debates every time an interest group introduces a hurdle or a new government is elected. Long Timeframes to a target create wiggle room and excuses to put off policy reforms.

Striving to become the "workers paradise" with adequate Superannuation for all is a worthwhile goal and could be the big idea bought back to the Australian story. The quicker we all agree to trust Superannuation as the way to grow wealth and have smart national conversations about it, the better.

Supervision GROUP

The Team behind Supervision SMSF

Kerryn Anderson: Reception/Client Services Manager
Pina Reid: Client Services Manager
Yasser Jaunbocus: Senior Tax Accountant/Client Service Manager
Satoko Hirose: Senior Tax Accountant
Ronnel Valencia: Senior Accounts Administration
Jessica Serrano: Accounts Administration
Liezel Munoz: Accounts Administration
Christopher Homer: Director

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