SMSF Owners' Alliance
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SMSFOA Members' Newsletter

#9 /2014

Dear Members

SMSFOA Annual General Meeting

Notice of SMSFOA's Annual General Meeting and Annual Report has gone to Principal Members. The AGM will be held at 4pm on 17 November in Sydney.

An invitation has also been sent to General Members inviting them to attend an Information Meeting at 4.15pm immediately following the AGM.

Technical Workshop – *Practical and Innovative Strategies for SMSFs*

This workshop was held at the ASX in Sydney on 9 July with excellent presentations from six experts who discussed the economic outlook, SMSF investment strategy and estate planning. Among the interesting and informative presentations, Graham Hand, Editor of Cuffelinks, spoke about how he runs his own SMSF and Karl Siegling explained how Cadence Capital has earned an annualised return of 18% for its shareholders through a disciplined approach to managing its portfolio.

The presentations are available on the SMSFOA website at: www.smsfoa.org.au/events

If you have not already done so, we recommend you sign up to Cuffelinks. It's free, independent and every Friday publishes a number of objective articles on topics of interest to SMSF owners. See:

http://cuffelinks.com.au/

FSI Timing

The Chair of the Financial System Inquiry, David Murray, confirmed this week that he will hand his final report to the Treasurer next month. He said the Treasurer had indicated that he will release the report fairly quickly once he has received it. There will then be a further round of consultation before the Government announces its response to the FSI recommendations.

SMSFOA will be ready to comment when the report is released and will consider making a further submission.

Also, keep an eye out for the much anticipated Tax White Paper which is likely to be published in coming weeks.

Both the FSI report and the White Paper could have a very significant bearing on superannuation and SMSFs.

A nugget of good sense sifted from FSI submissions

We have not read all the submissions to the Interim Report of the Financial System Inquiry, though given there were over 6,500 we should hardly need to apologise!

However, we did read with considerable interest the one lodged by Rice Warner and believe this objective analysis should be on top of the FSI Panel's reading list and indeed be "required reading" for commentators and anyone interested in investment and superannuation.

We congratulate Rice Warner for bringing some sensible fundamental analysis to some of the issues canvassed by the Interim Report. For example:

1. Rice Warner points out that there is too much emphasis by APRA funds on avoiding negative returns on annual statements (short-termism). This emphasis can only be implemented by diluting the main goal of maximising long-term returns.
2. Lifetime annuities may provide longevity protection but only from a low starting point (providing a low return to retirees!)
3. The long term investment horizon in retirement needs growth assets to provide inflation protection and make funds last a long time. Growth can be maximised by harnessing the equity risk premiums and franking credits, rather than by holding cash or bonds as is often recommended as "defensive asset allocations" for retirees.
4. The amount of cash held by many APRA-regulated funds for liquidity purposes due to the portability of benefits reduces long-term returns for members.
5. "Conservative" asset allocations produce inferior outcomes because volatility de-risking is insufficient when faced with a significant market fall and the reduction in earnings capacity by moving a significant proportion into defensive assets results in significant long-term underperformance.
6. Lifetime annuities also under-perform over long periods because they are invested conservatively and the guarantees built into the products are costly.
7. The volatility of capital movements (share prices) is largely irrelevant to an investor provided they are not being forced to sell shares. APRA-regulated funds worry too much about short-term market price volatility leading to sub-optimal investment results.
8. Franking credits are sound as a means of avoiding double taxation of company dividends. Removing franking credits and once again putting equity investments at a disadvantage to debt investments would encourage investment in lower yielding portfolios which would lead to lower retirement incomes for the population and a greater call on the Age Pension.
9. Such action could also tilt capital structures towards a higher proportion of debt capital potentially increasing the rate of failure of business, especially in times of financial crisis, impacting investment returns.
10. SMSFs operate under the same tax superannuation rules as APRA-regulated funds but they are more flexible so can manage tax more easily and tailor investments to match an individual's circumstances.
11. There is not one Australian superannuation fund provider that has in place the right default retirement incomes package. The circumstances of retirees vary greatly so no product can be a magic bullet to solve all situations.

12. Existing products can be easily tailored to meet the needs of retirees but the problem is that superannuation funds do not provide optimal long-term solutions which by definition lead to reduced living standards in retirement and add to social security costs.

Thank you Rice Warner for presenting sound and sensible views on investment fundamentals. We hope this may stimulate more informed discussion amongst commentators.

We also like most of your proposed solutions regarding taxation of superannuation. We have several times suggested that it would be most efficient if the tax rate applying in accumulation phase is the same as the one applying in pension phase.

Where we differ is that we believe it may be best for such rate to be zero and for pension benefits to then be included in a retiree's income tax return. (the so-called EET system)

Another place we may differ is your suggestion that moving to such a system would be equitable in that "wealthy retirees will contribute towards reducing the Budget deficit".

This approach appears to ignore the fact that current retirees have been paying 15% tax on their earnings and contributions in the accumulation phase (and full tax on non-concessional contributions). Any move to introduce tax in the pension phase must recognise this and "grandfather" existing retirees who have accumulated their assets under the existing tax system. It also ignores the fact that "wealthy retirees" have, through the course of their working lives, paid much more in income tax than those who have not saved enough to support themselves financially in retirement.

How grandfathering can be achieved requires more discussion but the equitable way would be for the value of superannuation balances as at the date of change to be recorded and, when people retire, a proportion of their pension (equal to this value as a percentage of their superannuation balance at retirement) be untaxed as per the current system with the balance taxed as suggested by either Rice Warner or preferably in an EET system

Malcolm Clyde, SMSFOA Research Director

The ATO wants to hear from you

The Tax Office is inviting SMSF owners to participate in focus group discussions on how the ATO inter-acts with SMSFs. These sessions will be held in Sydney and Melbourne. See below for details.

Self managed super funds

SMSF News Alert

SMSF focus group discussions

The ATO is undertaking a program of work to transform how we go about our core business, and to make the ATO a contemporary and service-oriented organisation. As part of this, we are working with the community, staff and key stakeholders to design the future experience our clients will have in interacting with the tax and superannuation system. We are seeking self-managed super fund (SMSF) trustees and members to participate in our focus groups. The purpose of these sessions is to gain your insights and seek your input as to what you would like the future experience of SMSFs in interacting with the ATO (and Government more broadly) to be. This forum is an opportunity for you to put forward any concerns you have about your current interactions with the ATO and how these could be improved for the future.

Ahead of the focus group, we would like to ask you to think about the lifecycle of an SMSF, the interactions that you have with the ATO throughout that lifecycle, any irritants that these interactions give rise to, and any potential solutions to these irritants.

We are interested in ideas that:

- can improve your experience and that of your clients/members at
    - the stages of setting up an SMSF
    - during the accumulation phase
    - during retirement phase, or
    - upon winding up the fund.

The meeting will provide an opportunity for you to contribute these ideas and shape the future experience of interacting with the ATO and Government.

We are conscious that in terms of superannuation, the industry has been through a significant period of reform so any further changes are aimed at making interacting with the tax and super systems easier. We are focusing primarily on administrative changes, but policy and legislative changes are not out of scope if they are primarily about achieving a better administrative experience for you.

Three focus groups will be conducted in Sydney on 20 and 21 October and in Melbourne on 23 October. We are seeking 5 – 10 participants for each of the sessions.

If you would like to be a part of the focus groups can you please reply to this email by 12 October with:

- your name
- SMSF name
- contact details
- the group you would like to participate in.

We will then contact you to confirm the details of the focus group. Of course there is a limited availability for these and our ability to accommodate attendance will depend on the number of people who wish to participate. If we are unable to place you in a focus group we will contact you to inform you of that.

SMSF professionals webinars

We will be conducting one hour webinars on 14 and 15 October to discuss new compliance treatments and compliance concerns with SMSF professionals. To register a spot, click the link of your preferred session:

14 October 11:00 AEDT
14 October 14:30 AEDT
15 October 10:00 AEDT
15 October 11:30 AEDT

Prior to your session you are encouraged to send any questions you feel the SMSF industry will benefit from the ATO answering to SPRwebinars@ato.gov.au

The articles in this newsletter are provided for the general guidance of the industry and are current when first published, they do not attempt to address your specific circumstances. We suggest you consider whether more specific advice is necessary before entering into transactions.

And so does the University of NSW

Does your SMSF own a strata property? Then the City Futures Research Centre at UNSW Australia wants to hear from you. City Futures Research Centre is researching how to efficiently and fairly renew older areas of strata unit housing.

One of our members, Michael Allen, is President of the Australian College of Community Association Lawyers. The college is a research partner with UNSW into research on the renewal of strata schemes (as both investor owned and owner-occupied housing and commercial premises). The research is important as it will delve into the financial feasibility of strata renewals, including the impact which CGT, GST and stamp duty will have on investor held premises in these schemes.

Strata cancellation and renewal has become an important issue since changes were proposed in the NSW Government's position paper on strata title law reform, released in November 2013. The position paper proposes to amend the legislation and introduce a process that will allow collective sale and renewal of strata schemes with less than unanimous support.

To find out more about this research project, visit: www.cityfutures.net.au

The online survey is here: http://www.surveys.unsw.edu.au/f/159034/12ae/

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