The Optimiser Super News

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INSIDE THIS ISSUE

Laughing is good exercise—it's like jogging on the inside.

Middle age is when you choose your cereal for the fibre, not the toy.

SUPER FRAUDSTERS TARGET SMSFs

The list of those who have lost wads to fraudsters and scam artists continually grows. Email and internet has made the whole "Nigerian letter scam" process so much more efficient for offshore crime gangs.

According to figures from the Australian Crime Commission, thousands of Australians (more than 2,600 to be exact) have lost in excess of $100 million over recent years.

Too smart to get done? Here's a fact that should scare the pants off you. The biggest group to be losing the most dough currently is men over 50 with previous investing experience. This could be you!!

Boiler Rooms

These are cold calls from well-versed sales people who talk like stockbrokers. But unlike stockbrokers, they are only ever pushing the one stock. A stockbroker should be happy to sell you anything. Not these guys, which should be a warning sign on its own. They're inevitably operating from offshore.

Early Access Schemes

These schemes tend to target people in debt, the unemployed or those with poor English skills.

It might be a small ad in a newspaper, saying that they can help you with debt by helping you access your super.

The modus operandi is to convince the victim to agree to join a SMSF run by the fraudster. The fraudster says that if an amount is rolled over to the SMSF, they will take a commission and hand the rest of the super to you (the victim) – of course you never see it!

Property-Based Fraud

ASIC has warned regularly about unlicensed operators in the industry who target property investors.

Money is collected from targets (SMSFs and non-super) for investment in property development schemes. The money is transferred to a business account of the operator. The money is never seen again.

SMSFs Have Little Protection

SMSF trustees are, according to former Superannuation Minister Bill Shorten, "swimming outside the flags". When you decide to go it alone with a SMSF, you get to take the risks you want to take for the returns you want to chase. But with that extra reward comes a greater risk and less protection.

The best example of this in recent years was the Trio Capital/Astarra fraud. From the outside, it just seemed like a regular managed fund, with the usual sales pitch. About $176 million was lost.

Those who had their money invested through funds regulated by the Australian Prudential Regulation Authority (industry, corporate, government and retail funds) got their money back, via a levy on the industry.

APRA-funds have protection, while SMSFs do not. By starting or joining a SMSF, you are taking on the role of investment manager. That's your call, But it's up to you to make the relevant inquiries into the strength, or otherwise, of your individual investments. If that's not a risk you wish to take, then stick with an APRA fund.

So How to Protect your SMSF?

Most often fraud comes from greed. If you are constantly of the belief that you can get excess returns from investing in non-standard investment options, then you'll always potentially be open to an offer from left field of something that sounds like it has a lot better potential for return than average.

It's a horrid cliché and we hate using it, but it simply can't be faulted. **"If it sounds too good to be true, it probably is".**

Quotable Quotes

"Today is the oldest you've ever been, yet the youngest you'll ever be, so enjoy this day while it lasts."

"Your spouse is counting on you to remember things you don't remember."

"Now that you can afford expensive jewelry, it's not safe to wear it anywhere."

"Now that your husband has retired … you'd give anything if he'd find a job.."

HOW RISK INSURANCE FITS INTO YOUR FINANCIAL PLAN

Case study – Couple about to retire with $1,450,000

Here's a case study which demonstrates how you could – with the help of Optima Partners – pay little or no tax in retirement … and significantly improve your financial position.

Jake and Sandra are aged 58, and are about to retire with $1,200,000 in super, and $250,000 in cash.

They require an annual income of $85,000 pa (indexed)

With no planning: If Jake and Sandra elect to take the "no planning" route by withdrawing their superannuation money and investing it into term deposits and cash, the couple will pay $138,600 in lump sum tax.

On top of this income, they will pay income tax of $3,949 pa on the $57,342 that their investment generates.

The couple will therefore have a cashflow shortfall of $31,607 which they will have to withdraw from their cash account.

This shortfall will increase each year, resulting in a rapidly diminishing capital base. In fact, their money will run out in about 20 years.

With Optima's Assistance: Optima recommended the use of account based pensions, share investments and cash in order to solve the couple's tax problems. And, because the couple are reasonably comfortable with investing, it was suggested they use an asset allocation which should give them a long term average return of around 8% pa.

As a result, the couple would pay no lump sum tax, and their $85,000 retirement income would be tax free.

The combination of tax savings and access to higher investment returns should result in Jake and Sandra's retirement savings lasting until they are at least 102 years of age.

Table 1: Tax Payable

No Planning

Lump Sum Tax	$138,600
Income Tax pa	$3,949

With Optima's Advice:

Lump Sum Tax	Nil
Income Tax	Nil

How your Risk Insurance fits into your Financial Plan

Typically you would expect that you would grow your assets until you retire and then those assets would be depleted over your retirement, possibly with some left for your estate. And, of course, you would earn an income up until your retirement.

But what would happen if you were seriously injured or had a serious illness sometime in the future? Or if you died? You would lose your ability to earn an income and you—or your family—would have to draw down your assets to survive. Of course, your plans for a financially secure retirement for you and/or your family might also disappear—depending on the length of time your were unable to earn income.

That's where risk insurance comes in:

- Term Life Insurance
- Income Protection Insurance
- Trauma Insurance

Depending on the type of cover, it can fill the gap in assets, and it can replace your lost income. In other words, risk insurance can help keep you on track financially—in case an unexpected tragedy causes you to lose the ability to earn an income. Please contact Optima Partners or Southern Cross Financial to discuss your insurance needs on (08) 6267 2200.

From 1 July 2012 all superannuation funds must consider if fund members should be covered by some form of insurance. The trustees must detail why they have or have not provided insurance cover for their members.

THREE DEADLY SUPER SINS

Financial Assistance/Loans to Members

Often caused when individuals get into financial trouble. It's a breach of the sole purpose test and can lead to a SMSF being declared non-complying.

In-House Asset Rules

An in-house asset is a loan or investment in a related party of the SMSF. In-house assets are limited to 5% of the value of the fund, i.e. if the SMSF is worth $1 million, then they cannot invest more than $50,000 by way of loans etc in related parties.

Separation of Assets

Your assets must be kept separate from those of the SMSF. For example, some trustees may use the same bank account for the SMSF and their personal affairs. The ATO can fine trustees up to $17,000 for failure to observe the rules.

Trustees who commit these grave sins could end up in the superannuation sin bin i.e. having their SMSF declared non-complying and, in a worst case scenario, having its assets taxed at 47%, thats right, for example a $500,000 fund could lose $235,000 in assets tax. In addition to its income being taxed at 47%.

By listening to Optima, we can keep you in a state of (financial) grace and free of any worry.

INVESTING IN HIGH DIVIDEND SHARES – IS IT A MYTH?

The RBA recently cut the official interest rate to 2.5%. The best annual rate we can get on a 6 month term deposit right now (give or take a few bps) is around 3.86%. On their website, the RBA list an official inflation rate of 2.4%. This means the **real** annual return from our 6 month term deposit is only 1.46%. That's pretty ordinary, albeit we get the Government Guarantee on our capital up to $250,000 per entity, per institution. For a cash account earning the RBA rate, the real return is almost nil.

And so you can guess what happens next. Many self interested parties (and many financial commentators) begin to suggest that you should instead look at high dividend shares as an alternative.

So, is putting the level of dividend at the centre of your stock selection a good strategy? Should you become an investor in "high dividend shares".

First of all, lets put one thing to bed – you should never, ever invest in a company solely on the basis of how high its dividend is. That is just nonsense and is a sure fire way to lose money. Scrolling down a list of high dividend companies on the market makes for some appalling reading, with many in financial distress, negative returns on equity, negative earnings growth, and big negatives in terms of share price performance.

So what do you do? One criteria for the shares as part of a portfolio for a retiree is to select companies that are both currently and historically financially strong, with a relatively high return on equity, a history and an outlook of **sustainable** earnings, and are generally above $5 billion in market capitalization.

In other words, high quality defensive businesses that have sustainable competitive advantages, a strong brand, and relatively predictable cash flows. These types of companies ensure that you are at the lower risk end of the share market, and that your risk of **permanent** capital loss is reduced as much as possible. It also increases your probability of getting a relatively more consistent outcome by sticking with companies that have sustainable dividend yields.

Note we said **"sustainable"** dividends, not necessarily really high dividends. That's the key.

Now here's the thing. Going through this process actually provides a number of businesses that do in fact provide pretty solid dividends. The point is that the level of dividend is NOT the central decision point. In fact it's not even an influencer. It just so happens that some (but not all) of these types of businesses have solid dividends.

Unfortunately, however, its all been meshed together over the years, and many investors and financial journalists talk about "high dividend" shares without mentioning or thinking about all those other important criteria we listed above, and so the myth perpetuates. Many SMSF trustees see these articles and start trawling for high dividend stocks with no thought to the other criteria and hey presto, the potential for some serious wealth destruction is set in play.

Do not invest in shares based solely or centrally on the level of dividends. Find businesses that stack up as good solid businesses first and foremost based on a range of criteria. If they pay a high dividend, then great. If they don't and you need the higher dividend, then use that as your final screen, not your first.

OPTIMA PARTNERS
accountants &
business advisors

Suite 3, 128 Main Street
OSBORNE PARK WA 6017
Locked Bag 5000
OSBORNE PARK WA 6917

Phone: 6267 2200
Fax: 6267 2299
E-mail: reception@optimapartners.com.au

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Tax Advisory
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Bookkeeping (MYOB Specialists)
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HOW MUCH CAN YOU INVEST IN SUPER BEFORE 30 JUNE 2014

Here are the superannuation contribution caps which apply for the 2013/14 financial year.

Contributions which qualify for a tax deduction

These are known as concessional contributions and the limit is age based, as shown below. Generally you can only qualify for a tax deduction if your are self-employed or you are employed and make the contribution through salary sacrifice. The limit includes any Super Guarantee your employer pays on your behalf.

Age	Tax Deductible Limit (2013/14)
Up to age 59	$25,000
Age 60+	$35,000

Contributions which do not qualify for a tax deduction

You could also invest up to $150,000 pa in super as a non-concessional contribution (i.e. you do not receive a tax deduction on this contribution). If you are under age 65, you can bring forward up to two years of non-concessional contributions. This means you could contribute $450,000 in one financial year, but you would not be allowed to make non-concessional contributions in the following two financial years.

The Government co-contribution

Currently, eligible workers earning up to $48,516 who make personal contributions to super can take advantage of the Government co-contribution of up to $500.

Spouse Contributions

If your partner's income is less than $13,800, you could qualify for a tax off-set of up to $540 on the first $3,000 you contribute to superannuation for them from your after-tax income.

Low income superannuation contributions

The Government will refund the tax you pay on eligible contributions up to $500 - if your income is less than $37,000 pa.