

Superannuation Q&A

By Andrew Quinn

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This week:

- Combining dividends and capital growth.
- Retail managed funds vs SMSF and industry super funds.
- Starting a DIY fund.

Combining dividends and capital growth

Can you give some general markers to those of us who are cashed up and waiting to re-enter the market in an SMSF. I am wondering if there is such a thing as getting the right mix/balance of equities that offer dividends (partially and fully franked) and capital growth, according to the various stages of the members.

Giving advice in this area is difficult – both financially and legally – because everyone’s situation is different. You should therefore seek professional advice before making any decisions.

That said, being cashed up and ready to invest certainly puts you in a very enviable position. The All Ordinaries index is about 34% below its long-term trend. If you believe that corporate profits will eventually recover, then history suggests that buying in the current climate is probably a good strategy.

But structuring your investment portfolio according to your age or pension strategy is not a good idea because it doesn’t give sufficient weight to your risk profile, health, life expectancy, debt position, income needs, tax position and so on.

Unfortunately, many financial advisers still base their asset allocations on pre-mixed, model portfolios – or are told to do so by their dealer group or the organisational hierarchy – because they are not comfortable doing this part of the job on their own.

You should therefore look for an adviser or firm that specialises in designing direct portfolios for SMSF investors. They should be able match your profile with a range of investments that meet your particular requirements and provide you with detailed figures on expected capital growth, income, volatility and the likelihood of a negative return.

Retail vs SMSF and industry funds

I am self-employed and have my super in a large retail managed fund where the management fees are vast in proportion to the exceptionally poor returns of the past six months. If I were to take my money out (depending on exit fees) what options do I have in terms of where I could put it? Would it be either an SMSF or an industry super fund?

No one likes paying management fees, particularly when investment returns are low or even negative. Your dissatisfaction with retail managed funds is obviously shared by many people because that segment of the market has been in decline for more than a decade.

But there are several issues to consider here.

The first is that with a retail super fund, your fees are actually paying for two things: the management of your investment and ongoing advice in the form of a trailing commission to your adviser. If you are not getting any advice from your adviser, which is frequently the case, then the trailing commission is clearly a waste of money. And if the investment fees are not delivering superior returns, this might need to be looked at as well.

For super account balances of less than \$100,000, low-cost alternatives like industry funds and index funds are hard to beat in terms of fee efficiency. And perhaps more importantly, their investment returns since 2001 have been superior to the average retail fund. Some corporate super plans are also very cost-effective because the employer may be eligible for fee rebates.

But with low-cost options, you often get what you pay for in terms of investment options, administrative and reporting systems, customer support and website functionality. Likewise, you will generally have to pay additional fees for any financial advice you may require.

For larger account balances, there are wholesale funds that offer similar or lower fees than industry funds, and for account balances of \$200,000 or more, the use of a self-managed super fund becomes more feasible, especially if you are keen to be actively involved on the investment side. (*Editor's note: Many advisers believe an SMSF can still be commenced at \$100,000 provided the investors will actively participate in building wealth over time.*)

But trade-offs are involved, no matter what alternative you pick, and it is essential to consider exit fees, your insurance entitlements and other benefits that may be lost by switching from your current fund.

Starting a DIY fund

I am about to start an SMSF for my wife and myself.

I have just retired and have received my eligible termination payment. About \$100,000 was put into a retirement savings account (RSA) and the rest into interest-bearing deposit. I am aware of the post-July 2007 requirements of non-concessional deposits but my super RSA administrator has said that because of my employment award that the money will be backdated to pre-July 2007 conditions and I can put an extra \$150,000 or more into the RSA without breaching post 2007 limits. Can you shed any light on this?

The rules on contributing to super sometimes seem complicated, but in most cases they only depend on two things: your age and whether you are working.

If you are aged under 65, you can make non-concessional (undeducted) super contributions of up to \$150,000 a year. It doesn't matter whether you are retired, working, not working or have never worked.

If you are aged between 65 and 75, you can still contribute up to \$150,000 a year as long as you complete at least 40 hours of gainful employment in a consecutive 30-day period in the financial year in which the contributions are made.

That means if you are aged over 65 but worked for part of the financial year, you may still be eligible to contribute even after you have retired. This is probably what your RSA administrator was talking about. These rules apply across the board and are not specific to your employment award.



Andrew Quinn CPA is a director of *Wren Investment Advisers*.
