GFM Wealth Advisory | TRADE SECRETS

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SMSF Specialists | Investment Management | Financial Planning | Accounting

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THE TIME HAS COME!

By Tony Gilham

The big announcement for 2017 is my upcoming retirement.

Having started my career as an adviser on 16 July 1973, the time has now come for me to plan for my full retirement, which will happen in July 2017. On 16 July 2017, I will have notched up 44 years of continuous financial advice, and I think it's about time that I had a break.

As an organisation, we are extremely fortunate that we have had many clients with us for 30, 40, and in some cases 44 years, and many will recall my relatively simple and humble start as a very young advisor. I took on my first staff member in mid-1979, we moved into our first office at 596 St. Kilda Road in 1984 (4 staff), then we moved to 1221 Toorak Road in 1994 (9 staff), and then our current brand-new office at 190 Through Road in 2015 (25 staff).

Many of you will be aware that I have scaled back my working hours over the last two years, but it has been difficult, because in what we do, you have to be "on the job" virtually 24/7. Investment markets and superannuation legislation is forever changing, and the reality is that there are always things to be done every day.

I guess you could say that I have spent my whole working life in the retirement business, and fortunately I have followed my own good advice and it is nice to be able to set an example and have a successful retirement. Funnily enough, some of my clients have been pleased that I am retiring, but again, I think they would expect that of me. After July, I will still be involved in our ever expanding business, but more on a project basis, writing articles and continuing on the Investment Committee and I'll still aim to attend our many client seminars and social events.

I am sure that you are already aware that we have an outstanding team of people working on your behalf who are dedicated, passionate and knowledgeable about investment, superannuation, taxation and other financial matters. It's astonishing to reflect upon the longevity of the team, with two of us having been on the job for 40 years, one for 30 years, two for 20 years, three for more than 15 years, and another four for more than ten years. Quite amazing.

We currently have six financial advisers on the team, four qualified accountants, the SMSF department, and a big support team. The vast majority of our clients will know quite a few of these people reasonably well.

As far as our organisation is concerned, not much will change into the future. As advisers, we all have the same investment philosophy and we all identify the same strategic planning opportunities.

As far as our interstate clients are concerned, I'll be organising a catch up prior to my retirement, bringing along another adviser from our team that will continue to service your needs. And for our overseas clients, we will continue to maintain the same level of contact via email and Skype where required.

I have enjoyed what I have done for the last 44 years. It gives me a lot of pleasure to see our clients making the effort to get all of their affairs in order and achieve their financial goals. Needless to say, I have built extremely strong relationships with many of my very longstanding clients, and quite a few have become family friends, and I'm sure that will continue.

BRYAN & MAREE MEEHAN: CLIENTS OF GFM SINCE 1976 (AND EMPLOYEES OF GFM WEALTH)

By Tony Gilham

Bryan has kindly written the article below on his family, working life and the relationship he and Maree have had with our company as clients since 1976 and as employees since 1997 (Maree) and 2004 (Bryan). We greatly appreciate their contribution to this edition of Trade Secrets.

Gilham Financial Management Pty Ltd
ABN 69 006 679 394
Australian Financial Services Licence No. 229401

190 Through Road, Camberwell VIC 3124
T: (03) 9809 1221 F: (03) 9809 2055
enquiry@gfmwealth.com.au www.gfmwealth.com.au

Maree and I have now been clients of GFM for over 40 years. Maree then joined GFM in 1997 as a receptionist/administrator and I joined GFM in 2004 as the Operations Manager.

Maree and I married in 1974 and we have three married daughters, Belinda (41), Rebecca (39) and Kelli (36) and nine grandchildren (six boys and three girls) from 6 to 15 years of age. Maree's mother Marge has been living with us for the last 10 years and at age 95 she is doing extremely well.

I went to school with Tony (CBC St Kilda) and from when Tony commenced his business in 1973 he was continually recommending that we take out an insurance policy and in September 1976 he succeeded. Little did we know at that time how involved we would become with GFM.

Prior to joining GFM in 1997, Maree had rejoined the workforce in 1992 on a part time basis in retail but at one of our appointments in late 1996 Tony mentioned he was looking for a part time administrator/receptionist. Maree commenced employment initially 1 day per week but that quickly increased to 4 days per week over the last 19 years.

I commenced employment with Department of Defence (Defence Force Pay Accounting Centre - DEFPAC) in 1969 and worked for 35 years until late 2004 when I took early retirement from the Commonwealth Government. For the last 17 years of my public service career, I was involved in the HR area of DEFPAC and I specialized in superannuation, recruitment and budgeting. Over that 17 year period I provided advice to a large number of Commonwealth retirees in relation to the benefits of the super schemes they were members of (CSS or PSS schemes).

As clients of the business, and with Maree already working at GFM, I had a very good relationship with staff and in late 2004 when I informed Tony of my impending retirement from the Department of Defence, an opportunity presented itself to join GFM and look after the compliance requirements associated with GFM gaining its own Australian Financial Services Licence (AFSL).

While Maree was quite apprehensive about the 24/7 involvement with me, you would be pleased to know we are still happily married but I am very good at doing what I am told! Maree and I are incredibly fortunate to be given the opportunity to work at GFM.

Having received financial advice for a long period of time (and understanding how important that advice has been for Maree and I), I have always encouraged family members and friends to seek financial advice. You can never start too early!!

A long term clients and employees of GFM, Maree and I are most grateful to have received expert financial advice, to work with wonderful staff and assist all of the clients with their day to day financial needs.

WHY A SELF MANAGED SUPER FUND IS BEST PLACED TO HANDLE THE CHANGES TO SUPER FROM JULY 2017

By Witi Suma

In light of the upcoming changes to superannuation from July 2017, Self Managed Super Funds (SMSFs) are without doubt the best placed to adapt to the changes, given the key attributes of SMSFs are the flexibility, choice and control that they provide to members. By comparison, many of the strategies needed to cope with the changes would be impractical, if not impossible, for members of retail and industry super funds.

Maximising super contributions before July 1

As you would now be well aware, this financial year represents the last opportunity for individuals, subject to eligibility, to deposit three years' worth of non-concessional contributions (NCC) of $540,000, given the annual NCC cap is reducing to $100,000 per member from July. An NCC is simply a personal after-tax contribution to super, which can come from sources such as savings, an inheritance, a redundancy payment, or the sale of shares or a property.

In addition to cash contributions, members of SMSFs have the ability to transfer assets from their own names to the fund, such as listed shares and managed funds. This is a useful strategy to boost your super balance if you hold investments in your own name but do not have the available cash to make a contribution. Notably, this cannot be done if you are member of a retail or industry fund.

Small business owners also might want to consider transferring their business premises to their SMSF, because significantly, the transfer of a business property into super – if eligible for the "small business CGT concessions" – could be exempt from an individual's non-concessional annual cap. This can only be done in an SMSF.

Dealing with the $1.6 million pension transfer balance cap

A very popular strategy that has been available to utilise for many years now is where a member of a superannuation fund – subject to meeting a condition of release – can make a withdrawal from their benefit and re-contribute that into their or their spouse's member account as a non-concessional contribution (subject to the receiving member meeting the work test if older than 65). This is commonly known as a "re-contribution strategy", and is one that will become very useful in the lead-up to July as a way of dealing with the $1.6 million limit on tax-free retirement balance per member and achieving more parity between a couple's respective super balances.

Also, with the changes to "Transition to Retirement" pensions taking effect from July whereby the earnings on these pension assets will no longer be tax-free, a re-contribution strategy could be particularly useful where one member of a couple who is still working, shifts money into the member account of the spouse who has retired and therefore has tax-free earnings.

In addition to being able to withdraw funds and re-contribute to the spouse's account, another strategy is to split concessional super contributions between members. For instance, if a member of a fund is getting close to having a balance of $1.6 million, or is already over that amount, they have the ability to divert their ongoing concessional super contributions to their spouse's member benefit.

Obtaining member data "on demand" will be critical

Under the proposed changes, SMSF trustees will be given the opportunity to disregard breaches of the $1.6 million cap of less than $100,000 provided that the breach is rectified within six months. This means that super funds have a very short time-frame in which to determine the 30th June 2017 member balances. Fortunately for the very vast majority of our clients

who have engaged our accounting services for their SMSFs, the preparation of annual accounts can be done in a very short timeframe due to the fact that we process transactions on a daily basis rather than wait till year end. SMSF trustees generally have an advantage over retail and industry funds in this regard, in that the trustees can request their accounts to be completed in a timeframe that suits them.

One of the Budget proposals set to take effect from July 2018 is the ability for individuals who haven't utilised their full annual concessional contribution limit, to carry forward the unused amount on a five year rolling basis (subject to the member's super balance not exceeding $500,000). Our accounting software is easily able to verify how much of the annual concessional contribution cap a member has utilised, how much has been carried forward and when that five year rolling period expires for each member.

Conclusion

It is vital to plan well ahead of the changes that come into effect on 1 July 2017 and get expert, specialist advice to ensure that you are aware of all your options, and that the right strategies are put in place well before the changes come into effect. Fortunately if you are a member of an SMSF – in particular one that GFM manages – you are well positioned to take advantage of some of these suggested strategies and adapt to the changes, with much less of the hassle and complications that would be experienced by members of retail and industry funds.

CONTRIBUTION SPLITTING

By Nicola Beswick

Contribution splitting is a strategy that allows one member of a couple to transfer up to 85% of their concessional (pre-tax) contributions to the other member of the couple. This is not only the employer contributions, but also salary sacrifice contributions, or personal deductable contributions for the self-employed. From 1 July 2017, this is up to $21,250 ($25,000 less 15%), per Financial Year.

Instances where super splitting could be considered include:

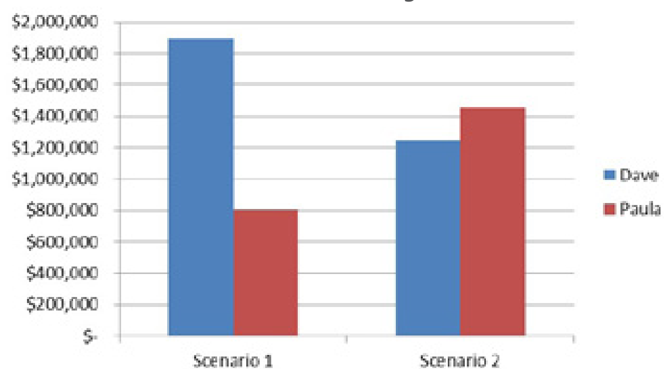
Uneven superannuation account balances

Super splitting can be beneficial where one person's account balance is significantly lower than the other, and they still both have a number of years until they retire. For example, Paula and Dave, a couple both in their early 40's, have $200,000 and $600,000 in superannuation respectively. Paula was out of the work force for a number of years and as a result, Paula's superannuation account was not contributed to over a number of years. Now Paula works part time and the amount of pre-tax contributions that she makes into superannuation is $10,000, and Dave contributes the maximum $25,000 (assuming this is from 1 July 2017).

By having Dave contribute his pre-tax contributions into Paula's superannuation account as well as Paula making her own contributions, Paula's account will grow at a more rapid rate compared to if they contributed to their accounts respectively. So, why consider such a strategy?

On 1 July 2017, the Government brought in a $1.6 million limit on superannuation monies that can be held in the pension phase and therefore receive tax free status on any earnings and capital gains made by the underlying investments. Any funds over this $1.6 million limit remain in the accumulation phase and are taxed at the concessional rate of 15% on earnings and 10% on long term capital gains.

Using the above example with Dave and Paula, if they continue to make their own respective contributions into superannuation, in 25 years' time when they wish to retire Dave's balance is $1,900,000 and Paula's is $805,000. However if Dave splits his contributions to Paula's superannuation account for the remainder of his working life, Paula's balance is $1,460,000 and Dave's is $1,250,000. This is shown in the chart below. Please note that these figures are in present day values and investment earnings are assumed to be 7% p.a. Contribution amounts have not changed.



Access to funds earlier

Contribution splitting isn't just a useful strategy for younger couples wanting to even up member benefits, but may be implemented for couples where they are reaching retirement.

For example, if one spouse is reaching a point where they can access their superannuation earlier, such as Peter and Beverley who are 61 and 54 years of age respectively. By having Beverley split her contributions to Peter, over a number of years, Peter's account balance will increase faster compared to if only his contributions were being made into his account. With Peter having met his preservation age, enabling him to convert his superannuation balance into a pension, both Peter and Beverley will be able to access a larger amount of money earlier.

This may assist in situations where a couple still has debt to repay, or if a couple need funds to meet their lifestyle. Undertaking this, the couple will be able to access a larger amount, tax free, and therefore potentially repay any debt earlier.

Centrelink planning

Conversely, if there is a significant age gap between couples, and there is no need to access funds to support their lifestyle, having the older spouse split their contributions to the younger spouse may assist in increasing the older spouse's potential Centrelink Age Pension benefits.

Superannuation account balances held in accumulation, for a member of a couple who is under Age Pension age does not count as an asset for Centrelink's purposes. Therefore, having the older member of a couple split their contributions to the younger spouse, superannuation money can be legitimately excluded from being assessed by Centrelink, potentially increasing Age Pension entitlements.

Taking Peter in the example above, by having his contributions split to Beverley, over a number of years, Beverley's account balance will increase faster and Peter's account will only grow

based on the earnings and capital gains made by the underlying investments. Once Peter reaches Age Pension age, his superannuation account will be counted as an asset by Centrelink whereas Beverley's, assuming it remains in accumulation, will be excluded (until she reaches Age Pension age).

Conclusion

Like anything, certain conditions need to be met before undertaking such a strategy. Only pre-tax or concessional contributions can be split to a spouse less than 65 who has not retired from the workforce.

Contribution splitting rules only apply to concessional contributions made in the previous Financial Years, once the Financial Year has finished. For example, if concessional contributions made in the 2015/16 Financial Year are to be split, the superannuation fund trustee must be informed generally between 1 July 2016 and 30 June 2017.

STAFF PROFILE: JAMES MALLIAROS

By Paul Nicol

James celebrated a significant milestone with the company last November, having started with GFM 15 years ago. Initially working as the company's Financial Controller and then moving onto a Paraplanning role a couple of years later, from August 2005 James has been in his current role as a Senior Financial Planner at GFM. James Has attained his SMSF Specialist Advisor accreditation.

Here's a quick Q and A with James:

Q. Your family

A. I've been married to Claudia for almost 18 years and we have two daughters, Isabella and Anastasia, both in High School. Our family is very much a multicultural one, with my parents migrating to Australia from Greece and Claudia's from Italy over 50 years ago.

Q. Favorite holiday destination?

A. Europe. We try to get there as much as possible to visit the many family and friends we have in Greece and Italy.

We have also been lucky to have travelled a fair bit as well and our favorite destinations include the beautiful beaches of the Amalfi Coast in southern Italy; the ancient ruins of Athens as well as the Provence region in southern France.

Q. Hobbies?

A. I don't seem to have much time for hobbies these days as we are all very busy with school and extracurricular activities. I do however try to get some time to myself by swimming at the local pool, going on a long bike ride or looking after my veggie patch in summer.

Q. Favorite food/drink?

A. Anything Italian, from pasta, pizza and risotto as well as the simplicity of some of the wonderful crusty breads and olive oil, tomatoes and parmesan cheese. All washed down with a good glass of Australian red wine.

I'm also very much a coffee lover – strong Italian coffee of course!

Q. Your proudest moment?

A. Naturally, the birth of my two daughters , watching them grow up and the personalities and traits that they have taken on over the years. However it can be challenging raising teenage girls – they really test your patience!

Q. What sports do you follow?

A. I'm a very keen AFL supporter, but unfortunately didn't choose well when I first picked a team growing up as a young boy in the in the early 1970's - I could have picked the Pies, Blues or the Hawks but I chose the Tigers!!! Initially it was an inspired choice but it's been a frustrating journey over the last 36 years. I live in hope that one day we will do what the Bulldogs did in 2016.

I also love and for many years played the round ball, supporting Melbourne Victory in the A-League and Liverpool in the EPL.

Q. Best part of working at GFM

A. The wonderful clients I get to meet and help every single day of my working life – they share all of their personal stories with me, both wonderful and sad, which I'm incredibly privileged to learn of.

Also all of my work colleagues are a fantastic group to work with every day, the main reason I've been here for the last 15 years – I just couldn't imagine doing my job anywhere else.

WHY SMSFS ARE BECOMING EXTREMELY POPULAR WITH "YOUNGER" CLIENTS

By Paul Nicol

For the first time since the statistics have been kept, the average age of members of newly established Self-Managed Superannuation Funds (SMSFs) fell under 50, to 48.8 in December 2015. This is down from 54 in 2010. This is definitely consistent with the generational shift we are seeing amongst our clients, with many starting to seek financial advice from a younger age or enquiring about setting up an SMSF.

There are a multitude of reasons as to why the age of the average new SMSF trustee is dropping including:

Greater control:

The reality is many under 50's are completely detached from their superannuation. Partly due to the younger member not having immediate access to their superannuation, and partly due to a lack of control over investment decisions with their superannuation, under 50's often view their superannuation as a passive investment.

But the new generation of SMSF trustees are attracted to the idea of taking control of their superannuation. Under 50's like the fact they can have much greater control and flexibility of investing in a much broader range of investments like direct shares and property.

In our experience, a fascinating factor in advising SMSF trustees is that the younger member is also far more likely to voluntarily contribute to their SMSF than a public offer or retail superannuation fund.

More money to invest:

Generation X (those born roughly from the early 1960's to the late 1970's), are the first generation to have entered the workforce since the introduction of the compulsory employer super contribution scheme in 1992. As a result, Gen X are the first generation with the benefit of accumulating a growing superannuation balance over a reasonable period of time.

With the ATO suggesting those considering starting an SMSF have a super balance of at least $200,000 , the potential of up to 25 years of compulsory contributions for Gen X could see this generation with super balances at this level or higher.

Combining your account balance with a partner:

Many couples reach their 30's and a natural co-mingling of finances usually occurs. At this point of time the combined super account balances of a couple are usually well above $200,000. There are some significant benefits in a couple combining their superannuation account balances which can only occur if you have a SMSF. The most obvious benefit of a couple running a SMSF is ensuring a combined focus on their future retirement nest egg. It is amazing how many couples we deal with that have no idea about their partner's superannuation and usually when the focus on superannuation occurs, it is far too late.

It is important to understand a SMSF can have up to four members. It is possible not just to have a SMSF with your partner, but it also possible to have a SMSF with other family, like minded friends or colleagues of even a business partner.

Potentially lower costs:

In addition to this, the leaps and bounds made by technology in recent years have effectively lowered the cost of sustaining an SMSF, making this type of super fund more competitively priced than ever before.

Depending on a person's specific situation, there may be a cost saving of running an SMSF over continuing in the more traditional retail super products.

Broader range of insurance options:

SMSF members can select a broader range of insurance options from a much wider range of providers, rather than being limited to the insurance product of choice provided by their current super fund.

The trend towards a lower average age of new SMSF members is not just limited to Generation X. There is also a growing demand from Generation Y to set up an SMSF. We perfectly understand this bias of younger members wanting to take control of the superannuation outcomes, and with the right advice, an SMSF if often the perfect solution for both Generation X and Generation Y.

DON'T LEAVE BEHIND A FINANCIAL MESS:
THE BENEFITS OF HAVING AN ESTATE PLAN IN PLACE

By James Malliaros

The start of a new calendar year often provides a good opportunity and the motivation to "get organised" and reassess your financial goals and objectives or even set new financial resolutions.

This will most likely include trying to save more (and spend less), reduce needless debt like personal loans and credit card debt and hopefully, if you get the chance, to check how competitive your current home loan and insurance policies are.

However, often overlooked or put in the "too hard basket" is sorting out your estate planning requirements. It might be hard to imagine now, but what if something were to happen to you? Rather than protecting your loved ones after your death, incorrect estate planning can lead to grief and ill will among your beneficiaries, and pave the way to a legal challenge.

Here are some simple steps you can take to help guard against this and therefore protect the important people in your life.

- **Make sure you consider all of the key documents:**
  Essential estate planning documents include a Will, a power of attorney, enduring guardianship, children's guardian, superannuation death benefit nominations and perhaps testamentary trusts as well.

- **Take stock and sort out your assets:**
  Review your assets and work out what can be passed directly to beneficiaries and what will have to go through your estate (your Will). Jointly held assets (usually with your spouse) like bank accounts and the family home will automatically pass to the surviving owner, however assets owned solely by you will become an estate asset and will need to be dealt with by your Will.

- **A comprehensive Will is crucial:**
  A Will is a person's statement of intention for distribution of their assets after they die. As such it must be done properly. DIY Will kits are a lawyer's best friend and a great source of litigation. They can be challenged more easily than a will that is drafted by an expert and tailored specifically for your circumstances.

- **Establish a power of attorney:**
  An enduring power of attorney enables someone to make financial and legal decisions for you and continues to be in effect (i.e. it is not revoked) if you lose mental capacity, although you are able to specify its limitations in the document. It can also act as trustee or director of trustee company for members of an SMSF.

- **Look after young children:**
  If you have young children you should appoint a legal guardian to look after them in case you (and your spouse) die prematurely. You should also consider appointing the children's guardian as the trustee of any inheritance they receive until they reach an age at which they can get control.

Further, the trustee can use the income earned from the inheritance, plus capital if necessary, to pay for the children's expenses like health care, school fees, clothing, or travel.

- **Consider testamentary trusts:**

  If you want to delay the age at which your children get control of their inheritance a testamentary trust should definitely be considered. It is a type of discretionary trust that is incorporated into a Will and can commence upon your death.

  It offers significant taxation advantages as income and capital gains derived by children under the age of 18 years from an inheritance received as a result of a Will are not subject to children's penalty tax rates.

  In addition it helps to protect the family's assets from any future financial difficulties the children may suffer and from any future unsavoury additions (partners/spouses) to the family unit.

  It is important to understand that even though a Will may specify that the children need to be 25 (for example) before they get control of any inheritance, if the Wills are only standard Wills then under the law the children will be able to get control when they become adults at age 18, despite the Wills specifying otherwise.

  As such, a Will would ideally accommodate the establishment of a separate testamentary trust for each beneficiary.

- **Don't ignore your superannuation beneficiary nomination:**

  Your Will does not automatically cover your superannuation fund assets.

  You should therefore regularly review the nominated beneficiaries on your super and life insurance especially if there is a change in your personal circumstances. A binding death benefit nomination, preferably non-lapsing, can help ensure that super benefits, including life insurance, are paid to the intended person.

  Also make sure you understand the tax implications of your beneficiary nominations. For example, a super benefit may pass to a spouse tax-free but may be taxable in the hands of adult children.

- **Take out Life Insurance:**

  Life insurance can be used to pay off debt or equalise the benefits paid when there are a number of beneficiaries to consider and is particularly useful in the case of blended families or second marriages.

Finally, it is really important that if your partner is not involved with your finances you try to get them involved. If something unexpected were to happen to you your partner would at least have a basic idea of what assets and liabilities you have and who helps you manage them.

2016 FEDERAL BUDGET SUPERANNUATION CHANGES SEMINAR

By Mai Davies

We held our first seminar for the year on the very important topic "2016 Federal Budget Superannuation Changes" on Monday 13th February at Riversdale Golf Club. There was a huge demand and the evening seminar was booked out very quickly, so to accommodate everyone, we also hosted a lunch seminar. Both sessions were well attended by almost 200 clients and guests and the feedback was excellent.

James Malliaros, Patrick Malcolm and Paul Nicol provided an overview of the many ways in which you may be impacted by the proposed changes and the opportunities that may exist within these changes prior to the 1st of July. Topics that we were covered included:

- Introduction of a $1.6 million transfer balance cap
- Changes to the taxation of Transition to Retirement (TtR) pensions
- A reduction to the concessional contribution (pre-tax) cap and allowing catch up concessional contributions
- Taxation deductions for personal concessional contributions
- A reduction in the non-concessional (post tax) contribution caps
- Once off opportunities prior to June 30 for non-concessional contributions before the transfer balance cap and reduced non-concessional contribution limit comes into effect
- Low Income Super Tax Offset and Spouse Contributions

The super reform package has made superannuation even more complex. It is virtually impossible for the average person to understand the complexities of the superannuation system and high quality advice will be paramount.

If you didn't attend the seminar and would like a copy of the presentation or would like to make a time with your financial adviser to discuss, please call Mai on 9809 1221.

We will be holding a specific seminar for individuals who might be impacted by the $1.6m transfer balance cap.

SEQUENCING RISK

By Patrick Malcolm

Our superannuation system is based on Australians building up funds during our working lives and then drawing down on it in retirement. For young accumulators, when the level of savings is small, maximising returns matter the most as you are able to weather market fluctuations over the long term. However, as your accumulated funds grow larger as you approach retirement, there is a greater focus on the short-term because unfavourable market conditions can lead to catastrophic results.

If you experience poor investment returns immediately prior to or in the early stages of retirement, your portfolio may not recover even when the market does eventually rebound.

It can lead to actions that individuals would prefer to avoid – working longer, reducing expenditures or needing to increase investment risk to achieve higher growth.

This risk of experiencing poor investment returns at the wrong time is called sequencing risk. Sequencing risk is one of the biggest financial risks faced by retirees because it is a major cause of longevity risk: the risk of outliving one's savings.

An example:

As you will see from the example below from AMP Capital, sequencing risk has the potential to make a large difference to how long your savings will last in retirement.

Investor A and investor B both start retirement with an opening balance of $691,527. Both withdraw an annual income of 5% of the opening balance (approximately $35,000), adjusted for inflation of 3% per annum. Both portfolios generate the same investment returns – however, the pattern of these returns is reversed. So, investor A's portfolio will deliver three consecutive negative returns early on in the period, while investor B's portfolio will deliver negative returns at the end of the period.

Age	Investor A		Investor B	
	Annual return (%)	Year-end value ($)	Annual return (%)	Year-end value ($)
65		$ 691,527		$ 691,527
66	-12	$ 578,117	29	$ 838,850
67	-21	$ 428,577	18	$ 947,819
68	-14	$ 337,030	25	$ 1,138,922
69	22	$ 365,082	-6	$ 1,035,071
70	10	$ 358,782	15	$ 1,145,578
71	4	$ 331,447	8	$ 1,193,934
72	11	$ 322,079	27	$ 1,463,863
73	3	$ 287,941	-2	$ 1,392,912
74	-5	$ 231,933	15	$ 1,551,478
75	21	$ 226,051	19	$ 1,792,573
76	17	$ 210,113	33	$ 2,322,320
77	5	$ 170,363	11	$ 2,524,649
78	-10	$ 108,959	-10	$ 2,227,816
79	11	$ 64,583	5	$ 2,285,892
80	33	$ 16,336	17	$ 2,613,303
81	19		21	$ 3,096,915
82	15		-3	$ 2,950,187
83	-2		3	$ 2,979,829
84	27		11	$ 3,242,271
85	8		4	$ 3,308,907
86	15		10	$ 3,571,104
87	-6		22	$ 4,278,273
88	25		-14	$ 3,622,339
89	18		-21	$ 2,807,738
90	29		-12	$ 2,408,958

In this example, the pattern of returns has made a big difference. Regular withdrawals, together with a string of poor investment returns early on mean Investor A has less time to recover. This is because the portfolio has less capital off which to rebound in value. Unfortunately, Investor A will have his funds depleted by age 80. Investor B will continue to accumulate wealth in retirement despite making the same annual withdrawals as Investor A. This is because Investor B has the better fortune of starting his retirement when the markets delivered three consecutive years of positive, double-digit returns.

What are the solutions?

Various solutions have been suggested to manage sequencing risk. Unfortunately there is no "silver bullet" and sequencing risk can never be eliminated because returns are unpredictable.

Individuals can hope to retire when markets are rising, but hope is clearly not a strategy on which to hinge a successful retirement.

Retirees can adjust their spending if their savings dramatically fall in value, however, this is a reactive strategy and it is not particularly useful if living and medical expenses are increasing year after year.

One strategy is to increase the exposure of low risk assets such as fixed interest as you approach retirement. However, a greater exposure to fixed interest, especially when current interest rates are at multi-decade lows, is unlikely to keep pace with inflation. This will result in a retiree drawing down their savings even faster than expected and consequently accelerating the risk of portfolio ruin.

Retirees therefore seem to be caught between a rock and a hard place. A high allocation to fixed interest reduces sequencing risk, but it is unlikely to match inflation, at least in present market conditions, leading to greater withdrawals from savings. Conversely, a high allocation to equities will provide a good inflation hedge but with the volatility that goes with an exposure to market linked investments.

Having a high level of diversification does help, but even with greater diversification, poor performance still can occur.

Keeping sufficient assets (up to two years of expenditures) in liquid assets avoids the need to cash out investments after a significant fall in the markets, before markets have had time to recover. But this does not provide protection from risk on the balance of the portfolio.

Ultimately, prevention is the best cure to the problem. A proactive strategy is required for retirement savings. Those accumulating for retirement should make every attempt to contribute more into their superannuation and build a larger balance to better withstand volatility as they approach retirement.

Clearly a different strategy is required for those approaching or in retirement and are therefore unable to make significant injections to their retirement nest egg. Creating a well-diversified, lower risk, income orientated portfolio helps mitigate the effects of sequencing risk while still providing a good long term hedge to inflation.

In this scenario, it is important for retirees to maximise 'investor returns' not 'investment returns', so outperforming in down markets is much more important performance in strong

markets as it is harder to regain lost capital when drawing on your savings. Furthermore, a well-constructed, diversified, lower risk portfolio that has an additional objective of delivering higher income will dramatically increase the success rate of retirement as it will reduce the likelihood of drawing down on capital given the level of income that is being provided.

UTILISING A TRUST STRUCTURE

By Andrew Goldman

Many people believe that a trust structure is a legal entity or person, like a company or individual but this is not true. A trust is a relationship where an individual (the trustee) is under an obligation to hold assets for the benefit of other individuals (the beneficiaries). A trust can have more than one trustee and more than one beneficiary and throughout the life of the trust, the trustee will distribute income and/or capital.

Every trust will have an establishing document known as a Trust Deed and the terms and conditions under which the Trust is established and maintained are set out in its deed.

There are several types of trusts, however for this article we will concentrate on discretionary trusts, also commonly known as family trusts.

What is a discretionary/family trust?

A discretionary trust is generally established to hold a family's assets or to conduct a family business and are established for asset protection or tax purposes. The terms and conditions under which a family trust is established and maintained are set out in its trust deed with the deed naming an appointer (who has the power to appoint and remove trustee/s), trustees (who conducts the trust and manages the assets and distribution of income) and beneficiaries (who receive income and/or capital from the trust).

The income and capital within the trust is distributed to the beneficiaries at the discretion of the trustee, and beneficiaries of the trust generally have no defined interest in the property of the trust.

Whilst a discretionary trust is sometimes referred to as a family trust, for tax purposes only a trust that has made a family trust election is considered a family trust. Making a family trust election means that the distributions from the trust may only be distributed to beneficiaries who are within 'the family group'.

What can a discretionary trust do to earn its income?

A discretionary trust is permitted to do whatever its deed allows it to do. Typically the deed is drafted in such a way that the trust will be able to do almost anything from operating a trading business to investing in financial assets (such as shares and bank accounts) and non-financial assets such as real estate.

What advantages are offered via the use of a discretionary trust?

Income Tax Advantages

One of the main advantages of utilising a discretionary trust is that trustee is free to distribute trust income to as many beneficiaries as possible, and in proportions that take best advantage of those beneficiaries' personal marginal tax rates.

Can Compliment Investing via Super

For individuals who have maximised their superannuation contribution caps or who are affected by the introduction of the new $1.6 million pension transfer balance cap from 1 July 2017, a trust may offer the ability to invest in a manner which potentially minimises their personal tax liability.

Asset Protection

As beneficiaries of the trust generally have no defined interest in the property of the trust, in instances where beneficiaries encounter circumstances which could threaten their personal assets (divorce, bankruptcy, creditors etc.), the assets of the trust will be protected.

Estate Planning

In many cases, the trust will outlive those who establish it and those who benefit from it. However, if careful consideration is given to who is and will be the appointor of the trust, control of the trust may be effectively passed to to successive generations of family, where the asset protection and tax benefits will continue.

Should you be interested in discussing how a trust could be incorporated into your financial framework, please contact your advisor or Andrew Goldman from GFM Gruchy Accounting.

CHRISTMAS CARDS & CHARITABLE DONATIONS

By Mai Davies

For 18 years, instead of sending Christmas cards, we have donated a comparable amount to charities. This initiative is well supported by our clients.

This year we had 6 nominated charities and have made a donation to each of them.

The 2016 money has been donated to the following charities as nominated by our clients:

- Gippsland Rotary House Centenary House
- People with Multiple Sclerosis Victoria Inc
- Wheelchairs for Kids
- Victorian Lions Rheumatism and Arthritis Medical Research Foundation
- Greendale Wildlife Shelter
- The School of St Jude

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