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TRADE SECRETS

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SMSF Specialists | Investment Management | Financial Planning | Accounting

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HOW A SELF-MANAGED SUPERANNUATION FUND CAN OUTPERFORM AN APRA SUPER FUND

By Patrick Malcolm

In our last edition of Trade Secrets, we highlighted research that over the 2021/22 Financial Year, the Self Managed Super Fund (SMSF) sector outperformed the APRA fund sector.

An APRA super fund, or more correctly, an APRA-regulated super fund, is registered by the Australian Prudential Regulation Authority (APRA) and agrees to follow its rules and requirements. This registration is designed to reassure members that their super fund will manage accounts responsibly and that the fund's trustees are required to make decisions in the best interests of the fund members.

The Australian Prudential Regulation Authority is the Australian Government body that oversees and regulates finance businesses such as banks, insurers, and most superannuation funds.

APRA super funds include industry, corporate, retail and company super funds.

GFM Wealth has long advocated the use of SMSFs. It is important to note that an SMSF is not a suitable structure for everyone, particularly those with a low balance or those who want a basic solution for their superannuation. However, we believe SMSFs offer the greatest control, flexibility and transparency over how your superannuation assets are invested. We strongly believe that the confidence and security achieved from controlling your retirement nest egg makes an SMSF compelling.

In February of this year, the SMSF Association and the University of Adelaide's International Centre for Financial Services released their annual research findings to examine the overall financial performance of SMSFs compared to APRA funds. Over the 2021/22 Financial Year, the Self Managed Super Fund (SMSF) sector outperformed the APRA fund sector.

In addition to the more recent research, a 2009 federal government paper titled "A Statistical Summary of SMSFs" compared the performance of SMSFs with APRA funds for the 2006, 2007 and 2008 financial years. Although cautioning the comparisons, it showed SMSFs' return on assets were 12.6 per cent, 16.9 per cent and -6.1 per cent, respectively, while the APRA funds returned 12.2 per cent, 13.3 per cent and -7.8 per cent, respectively.

So, the bigger question is why have, and how can, SMSFs outperform other APRA funds?

Ultimately, it all comes down to asset allocation.

Simply put, asset allocation is how an investor divides their portfolio between different kinds of assets.

At GFM, we believe that asset allocation and diversification are the foundations of portfolio construction.

Research carried out by Brinson, Hood and Beebower and published in the Financial Analyst Journal in 1986 (The Determinants of Portfolio Performance) found that the percentage of the variability of a portfolio's return over time that could be explained by asset allocation policy was over 90%. An update on this research published in 1991 by Brinson, Singer and Beebower found a similar result. Both studies focused on US-balanced pension funds.

An SMSF's Trust Deed determines the investment choices available within an SMSF. Within an SMSF, you can invest directly in your chosen combination of investments aligned with your risk profile and objectives. Through an SMSF, you can invest in direct shares, high–yielding cash accounts, term deposits, income–orientated investments, unlisted assets and direct property. Sometimes, these investments are unavailable via APRA funds or are hard to get meaningful exposure to.

Below, we talk through some of the reasons why SMSFs have outperformed and how they can continue to outperform:

1. Lower exposure to government bonds:

Bonds can provide a stable source of income and can protect the money you invest. They are less risky than growth assets like shares and property and can help diversify an investment portfolio.

When you invest in bonds, you're lending money to a company or Government. In return, you get regular interest payments, called coupon payments.

Bonds are generally viewed as a defensive asset and considered lower risk.

However, they are still exposed to:

- Interest rate risk – the risk that a change in interest rates could reduce the bond's market value. If interest rates rise, bonds offering lower coupon payments become less attractive investments.
- Credit risk – the risk that the issuer could default or go insolvent.

In October 2020, Australia's ten-year government bond yield bottomed at 0.8%. What does that mean? Simply put, you could lend money to the Australian Government for ten years, locking in an interest rate of 0.8% p.a. That is, if you gave the Government $1 million, they would pay you $8,000 p.a. for ten years and then give you back your $1 million.

It doesn't sound like a great deal, does it?

Fast forward three years, and by October 2023, the yield on the Australian ten-year government bond benchmark was 4.63%. The Bloomberg Ausbond Treasury 0+ Year Index returned –13.2% for those three years as the increase in interest rates reduced the market value of bonds.

Yet despite this, many APRA super funds still had significant bond exposure. Why? Large APRA funds face some unique challenges. Because they have more money to invest, they have more work to find sufficient attractive assets to buy. They are compelled to invest in bonds, as they are a $100 trillion global market.

As of June 2022, 14 superannuation funds had more than A$50 billion of assets. The portfolios of the two biggest super funds are larger than the Federal Government's Future Fund Management Agency, which oversees the A$194 billion Future Fund.

It is important to note that we feel that bonds have an important role to play in portfolios now as interest rates have increased.

2. Play the small-cap premium:

The small cap premium is a phenomenon where smaller companies outperform larger ones over the long term. This concept has been widely studied and debated.

The Australian market presents a unique perspective on this phenomenon. Historically, Australian small caps have often underperformed their larger counterparts. This divergence from the global trend is attributed to several factors, which include the Australian market being relatively concentrated and our economy has often been closely tied to commodity prices, which means smaller, more cyclical companies can be disproportionately affected in periods of economic downturn.

For the ten years that ended June 30 2024, large-cap Australian Shares have produced a return of 8.06% per annum. Small-cap Australian Shares have underperformed, producing a return of 6.45% per annum.

However, it is important to note that Australia's average small-cap manager (as measured by research house Morningstar) has produced a return of 9.29% per annum. This illustrates that, via active management, skilled fund managers can identify undervalued small-cap stocks, generate higher returns and outperform the index.

At present, we believe that small caps are trading at an attractive level relative to large caps.

Large APRA super funds cannot meaningfully invest in small caps, as they have outgrown that market segment.

3. Gain exposure to niche investments:

Through their SMSFs, many of our clients have gained exposure to niche investments, such as airports, private debt, private equity, credit, bank hybrid securities, and healthcare and telecommunications assets.

Private debt occurs outside traditional bank lending or public debt markets. Although private debt covers a wide range of lending strategies, it is mainly used for direct lending to large and small organisations.

Bank hybrids are used by banks to borrow money from investors, but they have features that include debt and equity.

Our preferred private debt investment has produced a return of 6.03% per annum over the last five years and 8.35% over the previous 12 months. Our preferred credit investment has returned 4.64% per annum over the previous five years and 9.01% over the last 12 months. Finally, a portfolio of actively managed hybrid securities has produced a return of 3.58% per annum over the previous five years and 6.76% over the last 12 months (excluding the benefits of franking credits).

Over the last five years, the Bloomberg AusBond Composite 0+Y TR AUD Index (a composite measure of the performance of the Australian debt market) has produced a return of –0.55% p.a. over the last five years and 5.15% over the previous 12 months.

These investments are not substitutes for bonds in a portfolio; however, they highlight the returns that can be achieved from other debt investments and the importance of a diversified defensive asset mix.

Again, large APRA super funds often cannot meaningfully invest in these assets.

4. Lower exposure to unlisted assets:

In the decade leading up to the pandemic, industry super funds boasted about capitalising on the so-called "illiquidity premium" derived from investing in long-dated, illiquid assets, namely unlisted property and infrastructure.

While we advocate for exposure to unlisted assets in SMSFs, one of the larger industry super funds has an exposure of around 40% to unlisted assets.

With the cost of capital so low, the value of commercial buildings, airports and toll roads drifted ever upwards, and industry funds performed well.

However, the cost of capital has changed dramatically. Tailwinds seem to have become headwinds.

Unlisted commercial property has been especially troublesome. Around the world and in Australia, office towers have been subject to significant write-downs because of elevated interest rates and subdued demand from tenants.

Infrastructure may also prove challenging. In the UK and Germany, governments and regulators have heaped pressure on owners to cut prices for consumers.

The issue now for industry funds is that turning the ship around will be very hard. The very nature of unlisted illiquid investments is that they must be held for a long time.

But the longer interest rates remain elevated, the greater the pressure on valuations.

Additionally, in June, the Australian Prudential Regulation Authority (APRA) warned that super funds' valuation practices were still failing on several fronts, labelling their use of revaluation triggers for valuations as the issue "with the most room for improvement".

Their concerns were based on a survey of 46 super funds, which manage almost 100% of unlisted assets.

Some funds also did not value assets at least quarterly as prudential guidance recommends, particularly in private equity, property, and infrastructure. While some funds updated internal policies to increase their valuation frequency, most have at least some assets they only revalue every six or 12 months.

Furthermore, boards were not applying enough scrutiny to valuations. According to the survey, just eight funds reported incidents where their boards challenged, rejected or overrode valuations from management when they were internally completed. In contrast, 18 funds challenged valuations from external asset managers.

5. Investing in listed investment companies (LICs)

A LIC is an investment listed on an exchange such as the Australian Securities Exchange (ASX). It is incorporated as a company. LICs generally operate like a managed fund. They have a fund manager who selects and manages the company's investments. LICs are 'closed-ended'. They don't issue new or cancel existing shares as investors join or leave. Instead, they issue a fixed number of shares in an initial public offering. Investors then buy and sell those shares on the exchange.

Given that LICs have a fixed capital base, supply and demand for a LIC are reflected in the share price. This can lead to situations where the underlying portfolio's value and the LIC share price diverge. As a result, LICs can sometimes trade at a premium or discount to Net Tangible Assets (NTA) per share. The NTA per share is the total value of the LIC portfolio divided by the number of shares on issue. For example, if a LIC has a $1m portfolio and 1 million shares outstanding, the NTA per share is $1.

A LIC trades at a "premium" when its share price is higher than its underlying NTA and at a "discount" when its share price trades on ASX lower than its underlying NTA. There can be many different reasons why a LIC trades at a premium or discount.

Discounts can present opportunities for patient SMSF investors to purchase assets for less than 100 cents in the dollar.

It is also important to note that, in a LIC, the dividend policy is set at the discretion of the company directors, giving the LIC more power to control the distribution of dividends through market cycles, which can also benefit SMSFs looking for more consistent income.

Finally, an SMSF can also invest in international shares via a LIC and receive franking credits, typically unavailable through other vehicles such as managed funds or ETFs.

So, as you can see, via asset allocation, there are several different ways that an SMSF can outperform other APRA super funds.

We know that most of our retired clients place as much, if not more, emphasis on minimising losses in falling markets as maximising returns in rising markets.

For SMSF members in retirement, having a portfolio well suited to market downturns by seeking capital preservation can avoid sleepless nights.

In the next edition of Trade Secrets, we will have an article focusing on other advantages of investing via an SMSF when in the pension phase.

PAUL AND LEONILDA DALLE NOGARE:
CLIENTS OF GFM SINCE 2007

By James Malliaros

Paul has kindly written the article on his working life, family, retirement and relationship with GFM Wealth Advisory. We greatly appreciate Paul's contribution to Trade Secrets.

Paul & Leonilda with their children and spouses

I studied Architecture at RMIT and graduated in 1972. Leonilda and I were married in March 1973, and we bought our first home in Glen Waverley, Victoria. We live in Mitcham, where we have been for the last 38 years. In March 2023, we celebrated our 50th Wedding Anniversary. After 40 years of employment, I retired in May 2009, and in 2010, we went on our first overseas trip to Italy and France. We are both in our 70s.

My employment began at O'Connor and Brophy Architects, Public Works Department, and Building Services Agency. I was a design architect designing, documenting, and supervising schools, hospitals, TAFE Colleges, and Police Stations. Later in my career, I worked at Sinclair Knight Merz as a Project Manager, coordinating and overseeing Consultant Teams on major projects such as Police and Law Courts, multi-use office buildings, and residential apartments.

We have three married children and six grandchildren. We have enjoyed spending time with our grandchildren and going on family holidays. During my retirement over the last 14 years, I have been able to continue my passions for building, photography, creating videos, painting, landscaping, gardening, and bike riding.

We began our journey with GFM in 2007 when a colleague at work recommended that we approach GFM as our advisor. We met with James Malliaros, who instantly gave us a clear

understanding of what the firm had to offer and how GFM could guide us and recommend how to set up our Self–Managed Superannuation Fund (SMSF). James outlined a recommended structure for the SMSF portfolio following extensive questionnaires to determine our respective risk profiles.

One significant strategy that complemented our SMSF was salary sacrifice, thereby gaining considerable tax benefits to grow our superannuation savings. Once the SMSF was set up, I was impressed by the recording and reporting system GFM makes available to its clients. The reporting system was easy to navigate and provided detailed information on each part of the portfolio and how each investment performed. We also receive quarterly reports that thoroughly analyse each investment in our portfolio.

We meet with James to discuss the portfolio's performance. We enjoy our meetings with James and are impressed with his knowledge of market conditions, the performance of our investments within the SMSF, and his overall understanding of Australian and overseas markets. James also maintains regular contact by email with any updates or potential changes to the portfolio.

Each year, GFM runs several seminars educating clients on all financial matters. We also enjoy the yearly film and cocktail nights and catching up with James and the GFM staff. We have always found the staff helpful and prompt in any advice or queries we had on our portfolio.

Our relationship with GFM and the advice provided by GFM over the last 17 years have always been positive and well-presented.

We recommend that anyone wishing to seek financial advice meet with GFM.

Paul & Leonilda with their grandchildren

INTRODUCING: ORRIN SHAW

By Rebecca Dhillon

Orrin joined GFM Wealth in March 2024 as an Associate Financial Planner. Before that, he worked at a boutique financial planning firm in South Yarra.

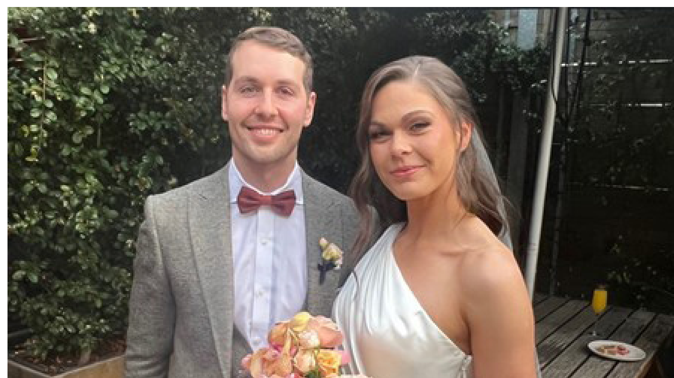
At GFM, Orrin primarily supports our Senior Financial Planners by preparing advice documents, taking meeting notes, and addressing client queries and correspondence.

Orrin is passionate about working with clients and providing them with advice and support that helps them achieve their financial goals and attain financial freedom. He is always keen to improve his industry knowledge and is on the path to becoming a full financial planner. He is looking forward to having a long and successful career with GFM.

Here's a quick Q and A with Orrin:

Q. Your family?

After eight years together, I recently married my beautiful wife, Kirsten. I am part of a small family, with just my mum, Liz and my sister Tillie, who now lives in Queensland. Kirsten and I plan to grow our family over the next few years, firstly with a corgi puppy and then a baby.



Q. Favourite holiday destination?

I haven't travelled much overseas, only visiting Thailand, Vietnam, and Cambodia, all very enjoyable places to visit. I travelled a fair bit domestically when I was younger to play in tennis tournaments, and I have fond memories of Perth. Unfortunately, I haven't been back for over 15 years. My wife and I have visited Hobart and Launceston over the last few years, and they were both incredible places for good food, plenty of wine and outdoor adventures.

Q. Hobbies?

I am a huge sports fan, both watching and playing. Going to the gym has become a big part of my life over the last few years and has helped me to complete a half marathon and compete in Hyrox Melbourne this year. I enjoy watching TV shows and movies and trying new restaurants.

Q. What is your favourite food/drink?

The first thing that comes to mind is lasagne and margaritas, although maybe not together. I would also never say no to Indian, Mexican, Italian, or Asian fusion, and there's always room for dessert at the end. A nice glass of red wine also goes down well.

Q. Your proudest moment?

Our wedding day. It was the most memorable day spent with our closest friends and family. Purchasing our first home together was also a very proud moment.

Q. What sports do you follow?

I barrack for the Saints in the AFL and hope our premiership drought ends soon. My wife and I enjoy playing and watching tennis, including attending the Australian Open every year and trying to watch as many Grand Slams and tournaments throughout the year. I play futsal once a week and follow Arsenal in the English Premier League. I'll also happily watch NFL games, NBA games, and cricket wherever possible.

Q. The best part of working at GFM?

GFM has been incredibly welcoming and provided a great environment in which to learn and grow my knowledge. It was obvious from day one that the main focus of the advisers and all staff is our clients. We're constantly discussing how to improve outcomes, provide better service and keep clients updated with relevant market updates. Financial advice is a relationship business, and the longevity of our clients and the high attendance figures at seminars, golf days, and movie nights show that our clients value the relationships with their advisers.

GIFTING AND CENTRELINK: WHAT IT IS AND WHY IT MATTERS

By Karen Maher

From a social security perspective, it's important to understand 'gifting' rules and consider how they might affect your current and future social security entitlements before providing financial assistance to family or friends.

While you are free to give away as much as you like, gifts that exceed certain thresholds will still be considered when calculating entitlements for most social security benefits and concessions (including assessments for Home Care Packages and Aged Care). This means that even if you no longer have the money or asset, it may still be included in the assessment.

Gifts that exceed the allowable limit are assessed for five years from the date the gift was made. As a result, even if you're not currently receiving social security benefits, gifts made before you become eligible could still impact your future entitlements.

The following are examples of arrangements that are considered gifts for social security purposes:

- Giving cash or transferring ownership of an asset to another person
- Forgiving a debt owed to you or paying someone else's debt for them
- Paying someone else's expenses, such as a grandchild's school fees, wedding expenses or living costs
- Selling property or another asset for less than their market value (where the sale isn't on the open market)
- Relinquishing control of a trust or company by selling units or shares for less than market value
- Waiving your interest in a deceased estate or a superannuation death benefit
- Contributing cash or assets into a trust or company that you or your partner do not control

What are the limits?

When Centrelink assesses entitlements, they exclude gifts of assets up to:

- $10,000 per financial year, and
- a maximum of $30,000 over a rolling five–year period (i.e. this financial year plus the previous four financial years)

These thresholds apply to the total of all amounts gifted. Any amount gifted above these thresholds will continue to be assessed as your assets for five years from the gift date. These amounts will be considered 'financial assets' under the assets test. They may also be deemed as income under the income test, depending on the type of benefit or concession.

After five years, the amount is disregarded and no longer considered when determining your entitlements.

The limits apply to both individuals and couples combined. A single person has a gifting limit of $10,000 per financial year, with a maximum of $30,000 over five financial years. For couples, the combined limit is also $10,000 per financial year, capped at $30,000 over five financial years.

Case Study

Example 1

Bianca gifts $13,000 on June 20 2024 and has not made any other gifts. As she has exceeded the $10,000 in a financial year threshold, $3,000 will be assessed for five years from the date of the gift (until June 20 2029).

Example 2

Wendy made various gifts between July 1 2019 and June 30 2024. The table below shows the assessment under the two thresholds.

Financial year	Gift	Assessed under the $10,000 per financial year rule	Assessed under the $30,000 over a rolling five–year period rule
2019–20	$13,000	$3,000	$0
2020–21	$9,000	$0	$0
2021–22	$14,000	$4,000	$0
2022–23	$7,500	$0	$6,500
2023–24	$15,000	$5,000	$10,000

Five–year rule

2021–22 – total gifts over the five years of $36,000 ($13,000 + $9,000 + $14,000) minus assessed gifting of $7,000 equals $29,000. As $29,000 is less than $30,000, no amount is assessable.

2022–23 – total gifts over the five years of $43,500 ($13,000 + $9,000 + $14,000 + $7,500) minus assessed gifting of $7,000 equals $36,500. As $36,500 exceeds the $30,000 threshold, $6,500 is assessable.

2023–24 – total gifts over the five years of $58,500 ($13,000 + $9,000 + $14,000 + $7,500 + $15,000) minus assessed gifting of $18,500 equals $40,000. $40,000 less $30,000 results in $10,000 being assessable.

Gifting and Taxation

In Australia, a cash gift is generally not considered income, meaning neither you nor the person giving it must pay tax. However, capital gains tax (CGT) might apply to non-cash gifts. For example, if you gift an asset like shares, it's treated as if you sold them, and capital gains tax (CGT) could apply.

COMMONWEALTH HEALTH CARE CARDS

By Rebecca Dhillon

The Government provides a Pensioner Concession ard for those receiving the Age Pension. This card offers discounts and benefits for eligible pensioners and selected benefit recipients in Australia. It can help reduce living costs by providing cheaper healthcare, medicines, public transport, and utilities.

However, for those not eligible for the Age Pension, the Government offers other concession cards to assist retirees and those with low incomes in supporting their cost of living. These are the Commonwealth Seniors Health Card and Low Income Health Care Card.

Below, we have outlined the eligibility conditions and benefits of these cards.

Commonwealth Seniors Health Card

A Commonwealth Seniors Health Card (CSHC) helps with the cost of prescription medicines and other services (as listed below) if you are of Age Pension age but do not qualify for Age Pension.

Other services may include:

- Cheaper medicine under the Pharmaceutical Benefits Scheme
- Refund for medical costs when the Medicare Safety Net is reached
- Bulk-billed doctor visits (at your doctor's discretion)
- Certain state, territory, and local government concessions include utility bills, property and water rates, public transport, and motor vehicle registration. These concessions vary based on the state or territory.

To qualify for the Commonwealth Seniors Health Card, a person must:

- Be an Australian resident living in Australia
- Have reached age pension age but do not qualify for Age Pension or income support
- From September 2024, have an "income" of less than:
  - $99,025 (singles)
  - $158,440 (couples combined), or
  - $198,050 (couples combined who are separated due to ill health)

When it comes to how "income" is defined, there are broadly two components:

- An amount known as adjusted taxable income, which includes taxable income, foreign income, net investment losses, employer-provided fringe benefits and reportable super contributions; plus
- A deemed amount relating to superannuation (account-based) pensions.

Regarding account-based pensions, these are not the actual amounts paid from the pension or even the minimum required for the year. It's a percentage of the account balance at the start of the year. The rate is 0.25% up to a threshold ($62,600 for singles, $103,800 for couples) and then 2.25% after that.

The card is valid for two years and is renewed at the end of the cardholder's birthday month, where eligibility rules continue to be met.

There is no asset test to be eligible for the card.

When travelling outside of Australia, a cardholder can continue to hold the card for up to 19 weeks before it is cancelled.

Low-Income Health Care Card

A Low Income Health Care Card (LIHCC) helps with the cost of prescription medicines under the Pharmaceutical Benefits Scheme, bulk billed doctor visits (at your doctor's discretion) and a bigger refund for medical expenses when the Medicare Safety Net is reached.

Your state or territory government and local council may offer you more benefits, such as lower electricity and gas bills, water rates, public transport fares and motor vehicle registration.

To qualify for the Low Income Health Care Card, a person must:

- Be an Australian resident living in Australia
- Be 19 years or older
- Have an income below the following thresholds from September 2024:

Status	Weekly Income	Income in 8 weeks
Single, no dependant children	$783.00	$6,264.00
Couple combined, no dependant children	$1,339.00	$10,712.00

Once you receive the card, your income must not exceed the following thresholds:

Status	Weekly Income	Income in 8 weeks
Single, no dependant children	$978.75	$7,830.00
Couple combined, no dependant children	$1,673.75	$13,390.00

The income included in the assessment of your eligibility for the card consists of:

- Employment income and fringe benefits
- Reportable super contributions, including salary sacrifice
- Property rental income
- Centrelink pensions and Department of Veterans Affairs payments
- Deemed income
- Superannuation pensions and defined benefit income streams
- Foreign income
- Private trust and company income
- Compensation payments
- Paid parental leave and lump sum payments such as redundancy, leave or termination payments

Once issued, the card is valid for 12 months. A renewal form is automatically issued close to the expiration date, and the individual must apply to renew the card. To be eligible for renewal, the individual must again meet the new applicant income test.

When travelling outside of Australia, a cardholder can continue to hold the card for up to 6 weeks before it is cancelled.

CSHC holders meeting LIHCC requirements can qualify for both concession cards.

MAKING SUPER CONTRIBUTIONS FOR YOUR CHILDREN OR GRANDCHILDREN

By Paul Nicol

Child or grandchild superannuation contributions strategies are becoming more popular for a variety of reasons, including;

- Building your child or grandchild's super earlier to help compound the super balance more quickly
- Accessing government benefits to grow your child or grandchild's super
- For a child or grandchild's tax benefit
- A form of early inheritance

Children under 18

Super contribution strategies for children under 18 are often dismissed due to the long period before the funds can be accessed. Still, we see some compelling reasons parents or grandparents with excess savings willing to gift money to a child should consider them.

Superannuation regulations permit a superannuation fund to accept contributions for children under 18 without restriction, regardless of their employment status. In practice, however, many funds impose restrictions on minors opening superannuation accounts because minors lack contractual capacity unless there is an employment arrangement.

A super fund treats contributions made by anyone other than the child or their employer as non-concessional contributions. The contributor cannot claim a tax deduction or offset for the contribution.

Contributions made on behalf of a child count towards the child's contribution limits.

A child can qualify for a government co-contribution payment of up to $500, but they must jump through a few hoops first.

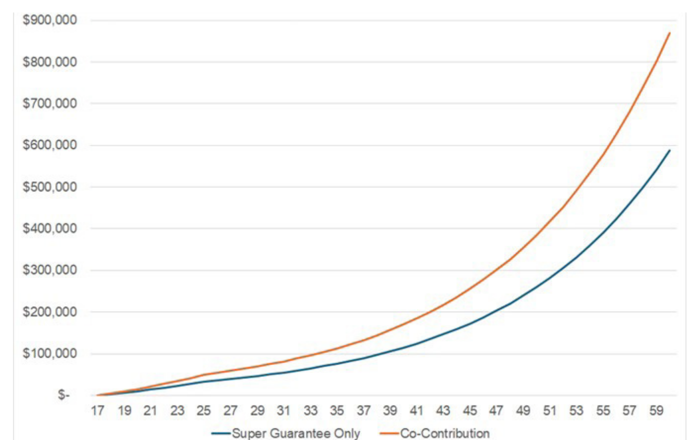
To begin with, the child will need to make a personal super contribution to their super fund. It must be their contribution (and not a contribution from a third party). This means the source of the funds must come from the child's after-tax savings. Therefore, under this scenario, a child might be gifted money from a parent or grandparent from which the child can then make the super contribution. The parent or grandparent shouldn't bypass the child and deposit their gift directly into the child's super fund.

The maximum co-contribution payable for the current financial year is $500. With a matching rate of 50%, a personal super contribution of $1,000 would maximise the co-contribution available, provided the individual's "total income" does not exceed $41,112.

It goes without saying that the earlier you start with superannuation savings, the better. Boosting a child or grandchild's super benefits with a small amount now will provide an opportunity to encourage and educate the next generation about their retirement savings and the magic of compounding investment returns.

Let's use a hypothetical example. Isaac is 18 and about to start his first part-time job. He will earn an average of $500 per week until age 25. We have assumed a superannuation guarantee rate of 12% for simplicity and that his superannuation produces a return of 8.5% p.a.

How do the value of the contributions made between the ages of 18 & 25 change with the addition of a personal super contribution of $1,000 (and the co-contribution)?



The superannuation guarantee contributions made grow to be worth almost $590,000 by age 60. Adding the personal super contribution of $1,000 (and the co-contribution), only $8,000 in additional contributions grows the amount to $870,000, an increase of almost 50%!

Children over 18

For children or grandchildren over 18, there are many different views on whether parents with money available to help their children should do so, with concerns about the potential for the children to become spendthrifts with the funds provided.

Putting money into super for your children or grandchildren can alleviate the fears of wasted money, as it is preserved in the super environment until at least age 60.

The strategies for children under 18 stated earlier in this article also apply to children over 18—additional strategies for contributing to children or grandchildren over 18 warrant serious consideration.

Many parents or grandparents are helping their child or grandchild make a concessional (tax-deductible) contribution into super.

People over 18 can make personal concessional (taxdeductible) contributions if they earn income from employment or business.

The major benefit of making tax-deductible superannuation contributions is the compounding effect of paying a lower tax rate. A simple example can show this:

Chad is 45 years old and earns $165,000 a year. His employer contributes the minimum required superannuation guarantee (SGC) of 11.5% or $18,975. Including the SGC, Chad is entitled to make a deductible contribution of up to $30,000 but does not have the financial resources to use his total limit due to his mortgage and children's school fees.

Chad expects to retire at age 65. His parents would like to help Chad build some wealth in a tax–effective way. Note that:

- Chad's marginal tax rate is 37% above $135,000%
- Concessional (Tax Deductible) Contributions to super are taxed at 15%

In simple terms, if Chad's parents help, he will save 22% on his tax, which, at $10,000, is an immediate benefit of $2,200. Chad receives this benefit as a refund on his tax return.

This concessional contribution strategy is also possible for adult children who may receive trust distributions from wealthy families to reduce tax on these distributions.

Making a non-concessional (after–tax) super contribution is also possible. We see this strategy adopted by parents with adult children not far from contemplating retirement.

For example, a parent who is 75 with children who are 50 may take the opportunity to add to their child's super progressively, knowing that they may otherwise be left with considerable funds outside superannuation when they receive an inheritance.

Maximising the benefits of superannuation with lowered contribution caps is becoming increasingly difficult. This strategy is appealing as wealthy parents may decide, in the form of early inheritance, to make significant non-concessional contributions into super, subject to a contribution limit of $120,000 or the 3–year bring–forward limit of $360,000. If this gift comes from the parent's superannuation, this may also save further tax on the parent's death.

It is important to reinforce that the child must make all the contribution strategies alluded to. In other words, the parent would need to deposit the money in the child's bank account, and the child would need to contribute.

ESTATE PLANNING SEMINAR: CREATING CERTAINTY

By Mai Davies

On Tuesday, May 21, we held our Estate Planning lunch seminar at Leonda by the Yarra. Our special guest presenters were Jennifer Dixon and James Dimond, Practice Leaders at Moores.

The seminar focused on a range of Estate Planning topics, including wills, the significance of asset ownership, what assets are covered by a will, roles and application of Powers of Attorney, superannuation, estate disputes and elder financial abuse.

This seminar was extremely popular, and the feedback was excellent. Everyone appreciated the opportunity to attend such a valuable and insightful presentation.

Estate planning is complex, and it is essential to review your estate plan regularly.

GFM WEBINARS

By Mai Davies

We held our third webinar for 2024 on Wednesday, June 5, where we provided an update on the Munro Global Growth Fund & Climate Change Leaders Fund.

We were delighted to see many interested clients and guests dialling in to hear from Patrick Malcolm, our Senior Partner, and our special guest, Nick Griffin, the Munro Partners Chief Investment Officer.

Patrick and Nick discussed the current macroeconomic environment, the investment opportunities for decarbonising the planet and provided updates on the Munro Global Growth Fund & Climate Change Leaders Fund portfolios.

If you have missed our previous webinars, they are on the GFM website. Click on the link below to watch the recordings of the previous webinars.

www.gfmwealth.com.au/news-info/past-webinars/

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