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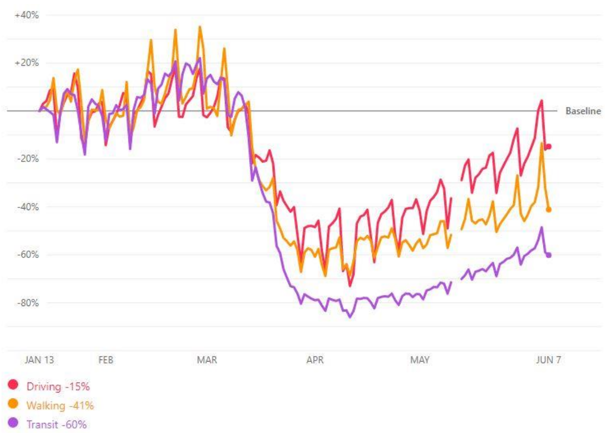
Contents

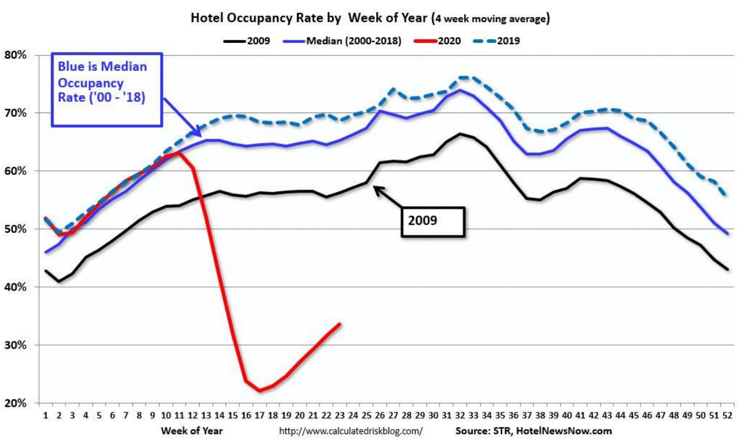
Editorial

Legendary US fund manager **Peter Lynch** was an early adopter of what we now call 'high frequency indicators'. He would sit in shopping malls watching which stores people went into and what they bought. He would give his children money and see how they spent it. He was looking for frequent and early signs before they were recognised by the market. Lynch's **Fidelity Magellan Fund** averaged 29% per annum from 1977 to 1990, more than twice the S&P500. He was considered the best money manager of the 1980s.

Many traditional economic indicators are out-of-date when they are released, such as the recent GDP update for the March quarter. Treasurer **Josh Frydenberg** received more questions about the June quarter and he responded based on early feedback from the **Reserve Bank**. The market has developed many high frequency indicators which have become far more sophisticated than Lynch's sitting around malls (although with little evidence they are any better).

Some daily examples include travel numbers from the US **Transportation Security Administration**, bookings of movie tickets from **Box Office Mojo** and **OpenTable**'s reporting on restaurant bookings (including for Australia). Apple is releasing mobility data for many countries and cities based on requests for directions on **Apple Maps**. Australia is shown below (left), indicating how quickly driving is recovering but not public transport.





Another example (above, right) from **HotelNewsNow** is hotel bookings, with the data below for the US showing the usual seasonal trends, the fall off a cliff in March and the start of a recovery.

By watching these early signs, investors try to stay ahead of the pack. It's a game anyone can play: how busy is the car park at your local shopping centre? What does your favourite coffee shop say about business? Are your friends buying as much stuff as normal or saving more? (Some examples above come from **Bill McBride** of Calculated Risk).

In this week's edition ...

How would you like a portfolio of quality shares especially selected by a famous, highly-experienced fund manager at a 20% discount to their market value. Well you can, every day of the week. What's the catch?

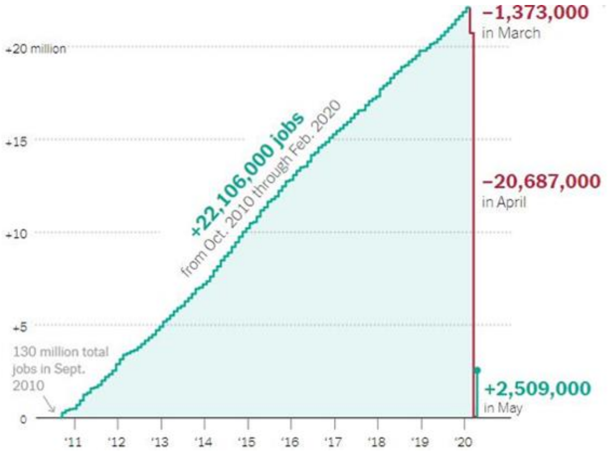
The stock market is booming in the middle of a recession, and while this one is unlike anything we have seen before, **Ashley Owen** shows a rally is what usually happens. It's not so weird.

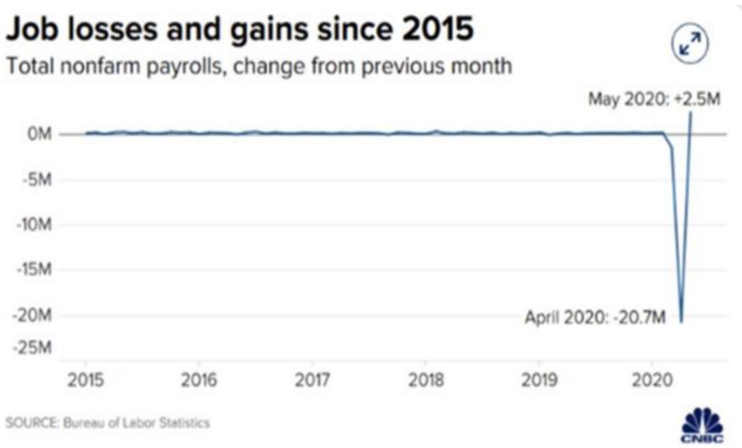
Yes, it's that time of year with a few weeks left to tidy up financial accounts, with some special features in super funds including SMSFs. **Liam Shorte** identifies 20 tips for FY2020.

Many investors fear they have missed the bargains but **Katie Hudson** explains what her team looks for in a stock market rebound like this one.

There's little doubt the majority of professional investors have been shocked by the market's recovery. **Sean Fenton** says the usual price signals a market needs have been lost in a sea of central bank liquidity, and **Moray Vincent** argues the extent of the rises simply cannot be justified. We are returing to pre-COVID levels as if no long-term damage has been done to the economy.

The market (and **Donald Trump**) was excited by the jobs gain last week but it's good to put it in perspective. Do you consider one of these diagrams on the same data highly misleading?





Source: Bureau of Labor Statistics by Ella Koeze via NY Times

Many retirees will know the difficulties juggling around assets, eligibility for the age pension and the vagaries of the taper test, as explained by **Andrew Boal.**

Finally, we reprise an article where **Chris Cuffe** warns about investing in unit trusts during June. Watch you do not convert your capital into taxable income.

This week's White Paper from **UBS** gives the view of Nobel Laureate **Sir Christopher Pissarides**, a labour market economist, on the epidemic and the way markets are responding, including a short video.

5 famous investors with cheap listed funds

Graham Hand

If you were offered $100,000 worth of CSL shares at 80% of their current market price, what would you do? Easy. Buy them and make an instant $20,000.

What if you could buy CSL at the same discounted price but not sell the shares for at least three years? Most people would probably still do the deal, as a 20% discount on CSL would be hard to resist.

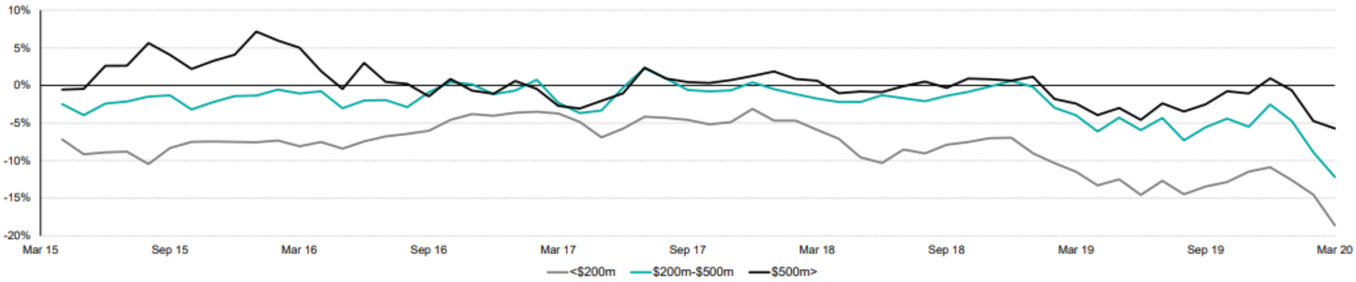
Now, what if instead of CSL, the 80% offer was on a diversified portfolio of quality shares selected by a leading, prominent fund manager? Pay 80 cents for $1 of their favoured selections. In theory, it's better than the CSL shares because the portfolio is diversified and backed by an expert team's opinion. Still hard to resist, even with no requirement to hold for a set period?

Every day of the week

Welcome to the world of Listed Investment Companies (LICs) and Listed Investment Trusts (LITs), a sector of the market valued at over $40 billion in 111 listed vehicles.

You can do the 80% deal every day of the week. There are so many LICs and LITs managed by well-known names regularly trading at significant discounts to their Net Tangible Assets (NTA) value that it's hard to know where to start. But unlike the CSL example, there is a risk the discount will go even wider.

Bell Potter's chart below from its latest Quarterly Report shows trading levels relative to NTA for LICs and LITs according to size. The average discount of those issues with a market value of less than $200 million was close to 20% at the end of March 2020, and many remain around this level in June.



Source: IRESS, Company Data, Bell Potter Estimates

The Quarterly Report included the following listed vehicles trading at discounts greater than 20% in the three sectors of Australian equities, global equities and alternatives as at 30 March 2020. For a check on more recent prices, see our Education Centre.

In case some of the above names are unfamiliar, consider other famous fund managers who missed the 20% cut-off but their discounts were still over 10%:

- QV Equities (Investors Mutual) (QVE), -14.4%
- Ophir High Conviction (OPH), -13.5%
- Magellan Global (MGG), -10.2%
- Platinum Capital (PMC), -11.2%
- Templeton Global (TGG), -17.1%
- Antipodes (APL), -17.1%
- Perpetual Credit (PCI), -14.5%.

Let's face it, it's unacceptable that retail investors cannot sell near the value of the underlying shares, especially during a critical time such as the need for money during the pandemic. These are among the highest-profile, most-respected fund managers in the country. Yet for many reasons, investors do not support their listed vehicles in sufficient numbers to sustain a share price near NTA (examples are pre-tax NTAs, and in most cases, post-tax NTA comparisons are worse).

Australian equities

TOP	Thorney Opportunities	-22.3%
SEC	Spheria Emerging Companies	-22.9%
NAC	Naos Ex-50 Opportunities	-23.8%
OZG	Ozgrowth	-23.8%
CDM	Cadence Capital	-25.2%
SNC	Sandon Capital Investments	-26.1%
TEK	Thorney Technologies	-30.7%
NSC	Naos Small Cap Opportunities	-33.1%

Global equities

ALI	Argo Global Listed Infrastructure	-20.9%
WQG	WCM Global Growth	-20.9%
FGG	Future Generation Global Investment	-22.8%
PIA	Pengana International Equities	-24.7%
WGB	WAM Global	-25.9%
TGF	Tribeca Global Natural Resources	-48.1%

Alternatives strategies

ALF	Australian Leaders Fund	-23.0%
MOT	MCP Income Opportunities Trust	-26.4%
RF1	Regal Investment Fund	-27.1%
LSF	L1 Long Short Fund	-29.1%
BAF	Blue Sky Alternatives Access Fund	-40.6%
BTI	Bailador Technology Investments	-47.2%

In investing, where there are thousands of competing funds all looking for a marginal edge, 10% to 20% is a big deal. If a fund manager were able to deliver a consistent 1% over a broad market index over the long term, and tell a good story, the investing world would beat a path to his or her door. Most active managers do not beat the index after fees, and would happily settle for 1% outperformance. Yet here we have significant discounts to the market value of the underlying assets, forcing investors to hang around in hope or sell at a big relative loss.

Five famous fundies with heavily-discounted LICs

Let's select five high-profile managers with 'cheap' LICs, defined as trading at a discount to NTA of about 20% as at the latest NTA disclosure (generally, 5 June 2020). None of these are recommendations, but clearly, if anyone likes the fund manager and believes the NTA discount will narrow, it could be a good entry point.

(Investors should check the latest price relative to NTA as changes in absolute and relative terms occur every day).

1. Australian Leaders Fund (ALF), price $0.90, NTA $1.14, discount 21%

ALF is managed by Justin Braitling and a large team at Watermark Asset Management. ALF is not one of the new breed of funds jumping on the LIC bandwagon, having been established in 2003. ALF is differentiated by its absolute return strategy and long/short positioning, and although this protected the NTA during the March 2020 coronavirus sell off, the share price did not respond. After some early success, ALF has struggled to attract support for many years and remains at a wide discount.

2. Thorney Opportunities (TOP), price $0.50, NTA $0.62, discount 19%

The portfolio manager and chairman of Thorney is Alex Waislitz, regularly featured in the media as a 'billionaire investor' (see below from the front page of *The Australian Financial Review* on Tuesday this week). In the 2018 Rich List, he was estimated to be worth $1.39 billion and in the same year, the Thorney Investments Group celebrated its 25th anniversary. All the ingredients for success sound right to find market gems (he was early into Afterpay and Zip) but the retail investor support is disappointing.

A walk in the park beats Zoom. During the lockdown, billionaire investor Alex Waislitz has found it harder to judge which companies to invest in without meeting the management team. "You miss the interaction, really seeing the body language; seeing some of the emotional, the EQ elements. You're getting more IQ elements, less EQ elements."

3. PM Capital Asian Opportunities (PAF), price $0.73, NTA $0.92, discount 21%

Paul Moore is the founder and chief investment officer of PM Capital. Moore had a long career at the famous investment powerhouse of its time, BT, before establishing his own business in 1998. PM Capital also has a large team of experienced managers, but Moore's investment approach is as a value manager, a style generally out-of-favour versus growth in recent years. Moore is better known as a global manager rather than Asian-specific, but even the global fund (ASX:PGF) is at an 18% discount.

4. Cadence Capital (CDM), price $0.65, NTA $0.87, discount 25%

Karl Siegling established Cadence in 2003 and listed CDM in 2006. Over nearly 15 years, the fund is ahead of its benchmark but recent years have been tough, underperforming the All Ords Index by 7% over the last five years. Cadence makes a feature of the fund that the management team are the largest shareholders so at least they are suffering alongside retail investors.

5. Spheria Emerging Companies (SEC), price $1.41, NTA $1.85, discount 24%

For variety, let's consider a younger boutique that is part of the large Pinnacle Group. Spheria's investment team includes three fund managers with over 40 years of experience in the small-cap market. SEC is a listed version of its unlisted Smaller Companies Fund, so why would anyone invest at NTA in the unlisted fund when the listed vehicle is offered at a 20+% discount? SEC came to market in November 2017 at $2 and reached its minimum target of $100 million in only two weeks, based on previously outperforming its index by 6.5% in the year before IPO. Since launch, the loss from $2 to $1.41 mainly comes from the discount to NTA and market falls but the fund has also underperformed its index.

All of these managers need to find a catalyst for the market to believe in their skills and styles and the merits of the LIC structure.

A weakness of structure as well

No doubt the discounts in the sector say as much about the weakness of some LIC and LIT structures as the fund manager, as the only liquidity comes from finding a buyer on the market. It should also be acknowledged that some LICs trade at a premium and benefit from active marketing by their managers or good economies of scale.

But there's no way to gloss over it. Billions of dollars were invested in the best names in Australian funds management, every investment originally costing NTA (or worse if fees were involved), and now most of the issues trade at a discount.

And there is a residual adverse impact from the commissions paid to brokers and advisers to place LICs and LITs, which have now been banned. The reputation of the structures took a hit when some massive transactions traded at a wide discount, and investor trust is slow to return.

It's one reason why some managers are moving into active exchange-traded funds (ETFs), where there is an in-built market-making function which ensures trading close to the NTA value.

Perhaps it needs a major consolidation where the big funds take over the minnows. It might be better from the investor's perspective to turn some funds into unlisted vehicles in an open-ended vehicle which trades at NTA, or an active ETF, as long as managers are willing to face redemptions. Ouch! Less funds means less fees.

Graham Hand is Managing Editor of Firstlinks. Graham owns some of the issues mentioned in this article, much to his chagrin. This article is general information and does not consider the circumstances of any investor.

Why are recessions usually good for share prices?

Ashley Owen

The Australian economy contracted by -0.3% in the March 2020 quarter and the June quarter will see a much larger contraction. Australia is in now in its first economic 'recession' since Paul Keating's 'recession we had to have' in 1990-1991. Perhaps surprisingly, economic recessions have generally been good for share prices in Australia, and the market rose on the news this time.

There is widespread acceptance that the government-ordered shutdowns of activities created instant recessions and almost instant unemployment for tens of millions of workers. The debate is now about how deep and how long the recessions and/or depressions will be.

Recession versus depression

There has not been an economic 'depression' since the 1930s. It was caused by collapses in commodities prices, incomes and credit, excessive levels of debt, rising protectionism, and bursting of speculative bubbles. The Australian economy contracted by -19% and lasted two years, and the US economy contracted by -33% and lasted three years. In the 1890s depression, the Australian economy contracted by -13% and lasted four years, and US economy contracted by -8% and lasted two years.

By comparison, the 2008-2009 GFC was very mild. The US economy contracted by -4% and lasted six quarters, while Australia's economy contracted by only -0.5% and lasted for just one quarter. Yet share markets fell by more than 50%. The next most recent 'big recession' was in 1990-1991, which was also mild by comparison with depressions.

It is notable that the current recession/depression may have been triggered by an unforeseeable set of events (government shutdowns to contain a virus spread) but it is also accompanied by similar underlying pre-conditions as previous deep depressions, and as well as several mere 'recessions'. The common culprits are familiar:

- collapses in commodities prices and incomes
- contractions in credit availability
- excessive levels of debt
- rising protectionism
- potentially, the bursting of the QE-inspired asset price bubbles.

Governments have learned how to spend

This time is different from previous depressions of course. The GFC taught governments how to deficit spend and it taught central banks how to create artificial money to buy bonds from governments, companies, mortgage borrowers, car borrowers, and even credit card borrowers. These ultra-loose monetary and fiscal policies are now embraced by left and right governments almost everywhere – even in Germany.

The problem is that, even after the hasty unleashing of trillions of dollars in government and central bank stimulus and support measures this time, economists are still talking about economic contractions in the order of 5-10%. This is several times worse than the GFC and the other mild contractions, and unemployment levels are still heading for 20% or more.

It seems we are still heading for contractions in overall economic activity and unemployment levels in the same league as the big depressions of the 1930s and 1890s. What the stimulus might do this time is shorten the contractions, but they are unlikely to lessen or shorten the unemployment pain.

All this talk of economic 'recessions' and 'depressions' can be depressing, but that is where the good news starts for investors.

The fear is that, since the economic contractions are only just starting now and may last for several quarters, then perhaps the February-March 2020 share market fall may not be the end of the overall share sell-off.

The good news is that while share market crashes and economic recessions and depressions are in most cases related, share prices generally fall before economic contractions start and then start rebounding while economies are still contracting.

Australian share prices in recessions and depressions

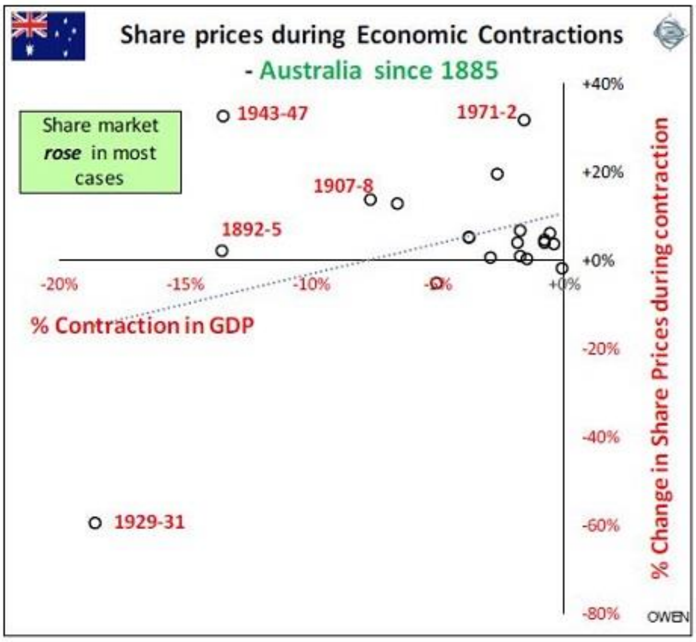
Share price falls generally precede economic recessions and share prices in Australia have actually risen during the vast majority of economic recessions. Here are the facts.

Australia has experienced 20 economic 'recessions' (including two 'depressions') since the 1880s. These are summarised below. The table sets out the dates and length of each economic contraction and what share prices did in during each period of economic contraction. The chart on the right shows the inverse (negative) relationship between economic growth and share prices.

Recessions (contractions 2q or longer)

Australia since 1885

	Start		End		Qtrs / yrs		Real GDP fall	Share prices
1	Dec 1891		Dec 1895		4	yr	-13.5%	+2.2%
2	Jun-1900		Jun-1901		1	yr	-1.7%	+1.0%
3	Jun-1902		Jun-1903		1	yr	-6.5%	+12.9%
4	Jun-1904		Jun-1905		1	yr	-1.7%	+7.0%
5	Jun-1907		Jun-1908		1	yr	-7.6%	+13.9%
6	Jun-1911		Jun-1912		1	yr	-2.9%	+0.9%
7	Jun-1914		Jun-1915		1	yr	-5.0%	-5.1%
8	Jun-1916		Jun-1918		2	yr	-3.7%	+5.3%
9	Jun-1927		Jun-1928		1	yr	-0.5%	+6.2%
10	Jun-1929		Jun-1931		2	yr	-18.6%	-59.6%
11	Jun-1938		Jun-1939		1	yr	-0.0%	-1.8%
12	Jun-1943		Jun-1947		4	yr	-13.5%	+32.8%
13	Jun-1952		Jun-1953		1	yr	-0.7%	+4.7%
14	Jun-1961	qtr	Sep-1961	qtr	2	qtrs	-1.8%	+4.0%
15	Sep-1965	qtr	Mar-1966	qtr	3	qtrs	-0.3%	+3.8%
16	Dec-1971	qtr	Mar-1972	qtr	2	qtrs	-1.5%	+31.9%
17	Sep-1975	qtr	Dec-1975	qtr	2	qtrs	-2.6%	+19.7%
18	Sep-1977	qtr	Dec-1977	qtr	2	qtrs	-0.7%	+4.1%
19	Dec-1981	qtr	Jun-1983	qtr	7	qtrs	-3.7%	+5.2%
20	Sep-1990	qtr	Jun-1991	qtr	4	qtrs	-1.4%	+0.4%
						count:	20	20
						median	-2.2%	+4.4%
						% Positive for shares:		85%



In summary:

- Share prices *rose* during 17 (85%) of the 20 economic recessions in Australia in the past 150 years.
- Share prices *rose* during each of Australia's last nine recessions.
- The last time a recession was accompanied by *falling* share prices was the 1938-39 recession (share prices fell by only -1.8%).
- Share prices *rose* in each of the recent well-known recent recessions – including: Keating's 1990-91 'recession we had to have', the long 1981-3 recession, the 1975 post-Whitlam dismissal recession, and the 1971-72 oil crisis recession.

The hard part for investors

Although shares prices often fell heavily at around the same time as the economic crises, in almost all cases, the share market fell *before* the economic contractions and then started to rebound *during* the contractions. As a result, most our big share market crashes were not actually during economic 'recessions' – not the 55% share crash in the GFC, the 50% crash in 1987, the 60% crash in 1973-4, the 39% mining crash in 1970-71, the 40% fall in 1981-82, nor most of the other big falls.

Conversely, some of the best years for Australian shares have been when the economy was contracting or still weak (albeit after big share falls earlier). For example: 1983, which was the best year ever for Australian shares (up +60%), during the 1981-1983 recession.

The hard part for investors is having the courage to buy shares when the economy is still contracting and the media headlines are full of doom and gloom about a cascade of corporate collapses, bankruptcies, and rising unemployment.

And, of course, deciding if this time is really different.

Ashley Owen is Chief Investment Officer at advisory firm Stanford Brown and The Lunar Group. He is also a Director of Third Link Investment Managers, a fund that supports Australian charities. This article is for general information purposes only and does not consider the circumstances of any individual.

The ultimate SMSF list: 20 checks for FY20

Liam Shorte

With only a few weeks left until 30 June, it's time to check your SMSF is in order and you are making the most of the strategies available to you.

Be careful not to allow your accountant, administrator or financial planner to reset any pension that has been grandfathered under the pension deeming rules that came in on 1 January 2015 without getting advice on the consequences. Point them to this document.

1. Watch the timing

If you are making a contribution, the funds must hit the SMSF's (or any super fund's) bank account by the close of business on the 30th June (a Tuesday in 2020). Some clearing houses hold on to money before presenting them to the super fund.

In addition, pension payments must leave the account by the close of business unless paid by cheque in which case the cheques must be presented within a few days of the EOFY. There must have been sufficient funds in the bank account to support the payment of the cheques on 30 June 30.

Get your payments in by Friday 26 June or earlier to be sure (yes I'm Irish).

2. Review your Concessional Contributions (CC) options and new rules

The big news is the government has changed the contribution rules from 1 July 2020 to extend the ability to make contributions from age 65 up to age 67. Read more here. Maximise contributions up to CC cap of $25,000 but do not exceed your limit.

The sting has been taken out of excess contributions tax but you don't need additional paperwork to sort out the problem. Check employer contributions on normal pay and bonuses, salary sacrifice and premiums for insurance in super as they may all be included in the limit.

3. Consider using the 'carry forward' CC cap

Broadly, the carry forward rule allows individuals to make additional CC in a financial year by utilising unused CC cap amounts from up to five previous financial years. Eligibility requires a total superannuation balance just before the start of that financial year of less than $500,000 (across all your super accounts).

This measure applies from 2018-19 so effectively, this means an individual can make up to $50,000 of CC in a single financial year by utilising unapplied unused CC caps since 1 July 2018.

4. Review plans for Non-Concessional Contributions (NCC) options

From 1 July 2020, the new age limit of 67 will apply to NCCs (that is, from after-tax money) without meeting the work test. You have the option of making $100,000 NCCs per year up to 67. Check out ATO superannuation contribution guidance .

Hopefully this month (tabled for 18 June 2020 sitting), Parliament will also pass legislation allowing use of the 'three-year bring forward rule' up to age 67.

Current Option if turned 65 in 2019-20: NCC of $100,000 or $300,000
Proposed Option: NCC $100,000, NCC $100,000 2012-21, NCC $300,000 2021-22

NCCs are an opportunity to move investments into super and out of a personal, company or trust name.

As many shares have been hit by COVID-19, you may find it a good opportunity, for personal tax reasons, to move some assets into super.

If you have sold your home in the last year and you are over 65, consider eligibility for Downsizer Contributions of up to $300,000 for each member of a couple.

5. Calculate co-contributions

Check your eligibility for the co-contribution, it's a good way to boost your super. The limits have changed based on your income and personal super contributions, so use the super co-contribution calculator.

6. Examine spouse contributions

If your spouse has assessable income plus reportable fringe benefits totalling less than $37,000 for the full $540 tax offset or up to $40,000 for a partial offset, then consider making a spouse contribution. Check out the ATO guidance here.

7. Give notice of intent to claim a deduction for contributions

If you are planning to claim a tax deduction for personal concessional contributions, you must have a valid 'notice of intent to claim or vary a deduction' (NAT 71121).

If you intend to start a pension this notice must be made before you commence the pension. Many like to start pension in June and avoid having to take a minimum pension in that financial year but make sure you have claimed your tax deduction first. The same notice requirement applies if you plan to take a lump sum withdrawal from your fund.

8. Consider contributions splitting to your spouse

Consider splitting contributions with your spouse, especially if:

- your family has one main income earner with a substantially higher balance or
- if there is an age difference where you can get funds into pension phase earlier or
- if you can improve your eligibility for concession cards or age pension by retaining funds in superannuation in the younger spouse's name.

This is a simple no-cost strategy I recommend for everyone here.

9. Act early on off-market share transfers

If you want to move any personal shareholdings into super (as a contribution) you should act early. The contract is only valid once the broker receives a fully-valid transfer form so timing in June is critical. There are likely to be brokerage costs involved.

10. Review options on pension payments

The government has brought in the Temporary Reduction in Minimum Pensions as part of the COVID-19 response. Ensure you take the new minimum pension of at least 50% of your age-based rate below. If a pension member has already taken pensions payments of equal to or greater than the 50% reduced minimum amount, they are not required to take any further pension payments before 30 June 2020. For transition to retirement pensions, ensure you have not taken more than 10% of your opening account balance this financial year.

If a pension member has already taken a minimum pension for the year, they cannot change the payment but they can get organised for 2020/21. So, no, you can't sneak a payment back into the SMSF bank account!

If you still need pension payments for living expenses but have already taken the 50% minimum then, it may be a good strategy for amounts above the 50% reduced minimum to be treated as either:

Minimum annual payments for super income streams for 2019/20 and 2020/21 Financial years.

Age at 1 July	*Standard minimum % withdrawal*	*50% reduced minimum pension*
Under 65	4%	2%
65–74	5%	2.5%
75–79	6%	3%
80–84	7%	3.5%
85–89	9%	4.5%
90–94	11%	5.5%
95 or older	14%	7%

a. a partial lump commutation sum rather than as a pension payment. This would create a debit against the pension members transfer balance account (TBA). Please discuss this with your accountant and adviser asap as some funds will have to report this quarterly and others on an annual basis.

b. for those with both pension and accumulation accounts, take the excess as a lump sum from the accumulation account to preserve as much in tax exempt pension phase as possible.

11. Check your documents on reversionary pensions

A reversionary pension to your spouse will provide them with up to 12 months to get their financials affairs organised before having to make a final decision on how to manage your death benefit.

You should review your pension documentation and check if you have nominated a reversionary pension in the context of your family situation. This is especially important with blended families and children from previous marriages that may contest your current spouse's rights to your assets. Also consider reversionary pensions for dependent disabled children.

The reversionary pension has become more important with the application of the $1.6 million Transfer Balance Cap (TBC) limit to pension phase.

12. Review Capital Gains Tax on each investment

Review any capital gains made during the year and over the term you have held the asset and consider disposing of investments with unrealised losses to offset the gains made. If in pension phase then consider triggering some capital gains regularly to avoid building up an unrealised gain that may be at risk to legislation changes.

13. Collate records of all asset movements and decisions

Ensure all the fund's activities have been appropriately documented with minutes, and that all copies of all statements and schedules are on file for your accountant, administrator and auditor.

In particular, review your Investment Strategy and ensure all investments have been made in accordance with it and the SMSF Trust Deed, including insurances for members. See my article of this subject here.

14. Arrange market valuations

Regulations now require assets to be valued at market value each year, including property and collectibles. For more information refer to ATO's publication Valuation guidelines for SMSFs. On collectibles, play by the new rules that came into place on 1 July 2016 or remove collectibles from your SMSF.

15. Understand COVID relief on in-house assets

If your fund has any investments in in-house assets you must make sure that at all times the market value of these investments is less than 5% of the value of the fund. Do not take this rule lightly as the new SMSF penalty powers will make it easier for the ATO to apply administrative penalties (fines) for smaller misdemeanours ranging from $820 to $10,200 per breach per trustee.

Due to COVID, the ATO will not take action against SMSFs where:

- at 30 June 2020 the market value of an SMSF's in-house assets is over 5% because of the downturn in the share market
- the trustee of the SMSF prepares a rectification plan
- by 30 June 2021, the rectification plan either:
    - cannot be effectively implemented because of market conditions
    - does not need to be implemented because the market recovers and the 5% test is again satisfied at 30 June 2021.

16. Document COVID-19 rent relief

If you have provided rent relief to a tenant, related or not, ensure it is documented including the reasoning behind the trustee decision and the details of the relief provided.

The ATO has provided a non-binding practical approach of not applying resources to this issue for FY2020 and FY2021. However, this announcement while positive, should not be relied on given the considerable downside risks. Auditors will want full documentation.

17. Check the ownership of all investments

Make sure the assets of the fund are held in the name of the trustees (including a corprorate trustee) on behalf of the fund. Check carefully any online accounts and ensure all SMSF assets are separate from your other assets.

We recommend a corporate trustee to all clients. This might be a good time to change, as explained in this article on Why SMSFs should have a corporate trustee.

18. Assess estate planning and loss of mental capacity strategies

Review any Binding Death Benefit Nominations (BDBN) to ensure they are valid, and check the wording matches that required by the Trust Deed. Ensure it still accords with your wishes.

Also ensure you have appropriate Enduring Power of Attorney's (EPOA) in place to allow someone to step into your place as trustee in the event of illness, mental incapacity or death.

Check your Trust Deed and the details of the rules. For example, did you know you cannot leave money to stepchildren via a BDBN if their birth-parent has pre-deceased you?

19. Review any SMSF loan arrangements

Have you provided special terms (low or no interest rates, capitalisation of interest etc) on a related party loan? Review your loan agreement and see if you need to amend your loan.

Have you made all the payments on your internal or third-party loans, have you looked at options on prepaying interest or fixing the rates while low? Have you made sure all payments in regards to Limited Recourse Borrowing Arrangements (LRBA) for the year were made through the SMSF trustee? If you bought a property using borrowing, has the Holding Trust been stamped by your state's Office of State Revenue.

20. Ensure SuperStream obligations are met

For super funds that receive employer contributions, the ATO is gradually introducing SuperStream, a system whereby super contributions data is made electronically.

All funds should be able to receive contributions electronically and you should obtain an Electronic Service Address (ESA) to receive contribution information.

If you change jobs your new employers may ask SMSF members for their ESA, ABN and bank account details.

Don't leave it until after 30 June. Review your SMSF now and seek advice if in doubt.

Liam Shorte is a specialist SMSF adviser and Director of Verante Financial Planning. He is also a Director of the SMSF Association and he writes under the social media identity of 'The SMSF Coach'.

This article contains general information only and does not address the circumstances of any individual. It is based on an understanding of relevant legislation and rules at the time of writing, which may change.

Four guiding principles to position for the rebound

Katie Hudson

In recent weeks, our investment team has been scouring its investment universe to prepare for the rebound. Here are some of the guiding principles developed to capture opportunities in the months ahead, when COVID-19 restrictions are eased and business activity resumes.

1. A hard stop doesn't necessarily mean a hard start

The revenue 'hard stop' experienced by many companies is unlikely to be followed by a widespread 'hard start' as activity resumes. This will be particularly the case for consumer-facing businesses where demand is likely to be muted, particularly those in travel, retail, education and tourism, meaning we are being very selective in this space.

2. Understand 'demand lost' versus 'demand deferred'

While lost demand is gone forever, 'deferred' demand is likely pent up and is well placed to rebound quickly in a range of sectors. As a result, we maintain a strong preference for the latter. Examples in our portfolios include radiology and pathology service providers, who could potentially see higher run-rate revenue over the next 6-12 months than before the shutdown as deferred activity is layered on top of normal activity levels.

3. Earnings rebuilds will differ significantly

Understanding cost structures has been critical in the shutdown, since it speaks to cash burn and, ultimately, balance sheet strength. As we move into the recovery, understanding how earnings will rebuild is equally important.

One example is the international travel sector. While we expect activity will rebuild very slowly, travel companies will see all their costs for things such as rent and labour quickly return, which means cash burn may extend beyond what the market is expecting.

By contrast, airports such as Auckland Airport, which own their hard assets, have an extremely low fixed cost structure, meaning cash burn is minimised and profits rebuild more quickly. While both types of business are exposed to the same demand dynamics, we have a clear preference for owning the airport.

4. Some companies will see long-term earnings power diluted

While the short-term hit to earnings from moderating activity is reasonably clear, the extent to which the shutdown impacts a company's long-term earnings power can be far more opaque.

For shopping malls there has been permanent erosion of earnings, reflecting the combination of likely higher vacancies and rent resets. The shift in power between mall owners and tenants has never been more stark, with even listed retailers openly declaring they will not pay rent during the shutdown (despite a clear contractual obligation). While arguably this is an acceleration of a trend already underway, in our view the long-term earnings power has been clearly diminished.

As active investors with a long-term focus, we are adding to holdings in those smaller cap companies where short-term earnings pressure has been confused with longer-term viability.

Companies where the longer-term earnings power remains in place – and for some market leaders it has improved – are helping to build the foundations for longer-term outperformance.

Katie Hudson is Head of Australian Equities Research at [Yarra Capital Management](), and Portfolio Manager for the UBS Australian Small Companies Fund. [UBS]() is a sponsor of Firstlinks.

More articles and papers from UBS can be [found here]().

The death of the price signal

Sean Fenton

Adam Smith is probably turning in his grave at the moment as the invisible hand of the price mechanism he described in *The Wealth of Nations* is fettered by central bank money printing. The main tenet of the modern capitalist economy is that price is used to clear supply and demand and efficiently ration scarce capital. Capital markets sit at the centre of such an economic system, pricing risk and allocating capital.

When central banks fix the price of money near zero by making its supply almost limitless, what sort of economic outcomes should we expect? Have central bankers discovered the magic bullet for all our previous economic woes?

The answer to recessions is now clear - print money!

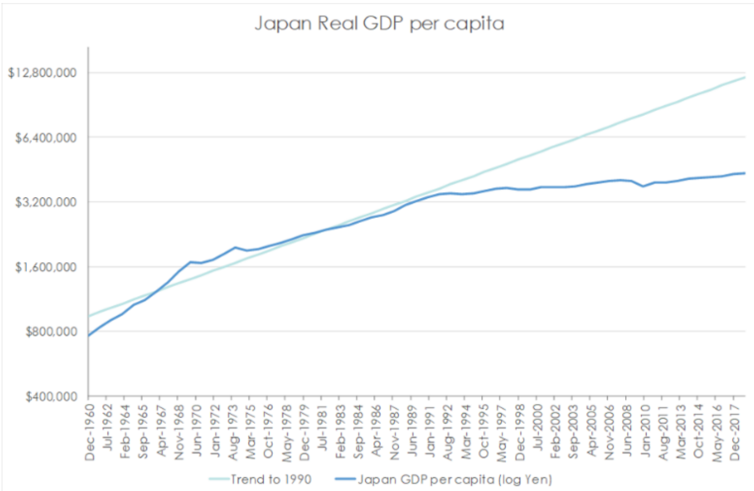
The famous value investor Benjamin Graham described the market as a voting machine, tallying the views of a myriad of investors to drive a price for the value of companies. In normal times the wisdom of crowds suggests that this view is often the most accurate prediction of the future.

In reality, the market is an extremely sensitive barometer of liquidity. The modern economy is circular with banking and capital markets sitting in the centre. Money is either created or destroyed by the rate at which it circulates around the economy. When economic activity slows then credit creation wanes and liquidity comes under pressure. This is often visible in declining stock prices as a real time measure of economic activity.

Therefore, the market isn't so much a great predictor of the economy, rather it is highly sensitive to its operation. It's no wonder that central bankers pay a lot of attention to it and react strongly to falls.

How effective are zero interest rate policies and QE?

Injecting liquidity into a seizing banking system is certainly a good short-term policy response and has proven effective in limiting the downside from the GFC and containing financial system stress in the current recession. However, did keeping policy rates below inflation in the developed world for the decade after the GFC produce a superior outcome?



As the economy which employed zero rates for the longest time, Japan offers an interesting test case. The following chart shows that after the bursting of their very leveraged housing bubble and a subsequent banking crisis, the Japanese economy has grown at a significantly slower rate.

Growth in real GDP per capita, a measure of the contribution of productivity to economic growth, rather than that from population growth or inflation, has been lacklustre.

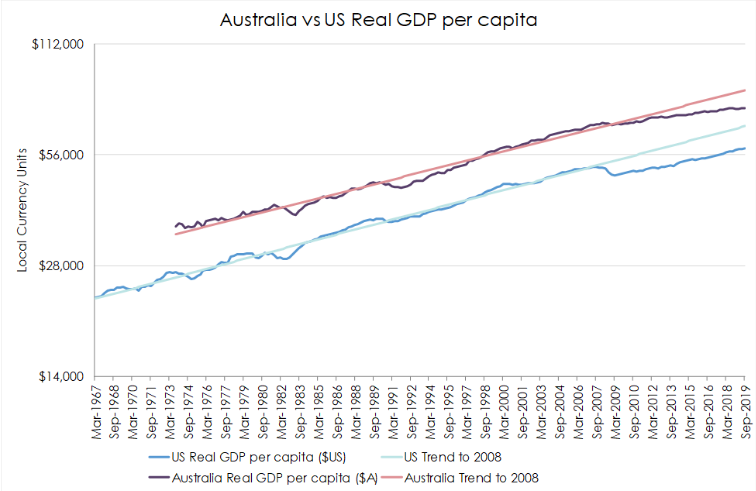
There are many reasons for Japan's economic performance, but the slow deleveraging of its housing bubble, exacerbated by an ageing and shrinking population, is key. For many years this asset deflation created a banking system that was technically insolvent and unprepared to take risk and lend. It also impacted confidence and spending patterns that saw the household sector spend the next 25 years deleveraging. Looking at this experience, it's no wonder that central bankers today are prepared to do whatever it takes to prevent an asset price deflation cycle.

Such a slow recovery makes you question whether zero interest rate policies and QE are effective or whether Japan was a unique case. The argument for low interest rates is that it encourages businesses to borrow to invest and create jobs. However, there have also been many criticisms, including that it encourages zombie companies to persist, destroys income for many and creates a moral hazard around leverage and risk taking.

From our perspective, one of the key negatives is that encouraging growth through increased leverage makes the economy vulnerable to further shocks. Even lower rates will then be needed to cushion the shock and create more leverage for growth. Part of Japan's problem was an unwillingness to take short-term pain and instead to socialise the costs of the financial collapse. They accepted lower growth in the long run for higher employment in the short run.

When dealing with economics, there are often a lot of circularities and feedback. It can be difficult to distinguish between causation and correlation. Are low rates caused by weak growth or does weak growth cause low rates? It's possibly both with two-way feedback. Zero rate policies don't appear to be an effective means of driving long term productivity growth. The US certainly performed better than Japan following its financial crisis.

The following chart highlights that while the US didn't recoup the losses to return to trend like it did in previous recessions, it did at least return to a similar trend growth level.



The US had a faster short-term adjustment than Japan through bankruptcies, unemployment and a more rapid deleveraging of the household sector. Through this period the US also experienced a massive positive economic shock from the shale oil boom. It has now eclipsed Saudi Arabia and Russia to become the world's largest oil producer and a net energy exporter. The return on capital from much of the shale oil investment is highly questionable, but it has driven economic activity and employment.

The fact that the US didn't perform better post the GFC despite this boost to activity raises questions around the benefits of the zero rate policies and successive rounds of QE. They were certainly necessary initially to fix a broken system, but while the US has recovered towards the previous trend in productivity, it has failed to recoup the losses of the GFC.

Australia's economic performance, in a productivity sense, has been worse than in the US. This anaemic growth has been obscured by high levels of migration which have boosted total GDP. The economic performance of the last decade has significantly trailed the recoveries from the recessions of the early 1980s and early 1990s. This raises the further question of whether avoiding a recession at any cost is worth it in the long run?

Why has Australia's performance been so poor?

One reason may be where our investment boom has taken place. Holding real rates below zero might not be great for capital allocation, as Australia has continued to invest heavily in housing: a little bit in the construction of new houses but a lot in the value of land. Increasing the value of land does nothing for the productive potential of the economy.

Rising house prices stimulate development activity in the short term and through wealth effects drives demand for second homes and holiday houses. According to the latest census there were 8.3 million households and 9.3 million private dwellings, so, it would appear, a lot of holiday homes. Stimulating house prices through low rates helps drive activity in the short term and preventing household deleveraging has limited downside recession risk. The cost though is one of the highest levels of household debt in the world.

The high level of gearing also makes households more financially fragile so that any economic hit risks a deleveraging cycle. The medium-term impacts of a huge allocation of investment to a non-productive area and the increasingly fragile confidence have created a poor economic outcome for Australia over the last decade. It's not clear how doubling down on these distortive policies will produce a better result over the next decade.

What you can be sure of is that there isn't going to be a long queue of central bankers looking to normalise these policies. The tough global recession will leave high levels of unemployment, underutilisation of capacity and likely deflationary pressures. We've probably got at least another decade of distortive policies keeping interest rates anchored around zero.

What is market pricing currently implying about the outlook?

Risk assets have rallied strongly across the board, starting with bonds and flowing through to credit and equities. Prima facie it looks like everything is good, we have had a brief exogenous shock, but it will largely roll through and things will get back to normal. That message seems at odds with a lot of the economic data and the fact that the coronavirus is still spreading around the world at an increasing rate, particularly in emerging markets. Central bank liquidity is swamping economic effects, so that market pricing has disconnected from economic fundamentals. The impact of this liquidity support is best highlighted by the collapse in US high yield credit spreads as seen in the following chart.

Source: Federal Reserve Bank of St Louis

What are the risks around this dynamic in the short term?

A mea culpa from central banks is highly unlikely, but an attempt to normalise rates and liquidity as policy makers take comfort from stronger markets is possible. Another risk is that the economic dislocation drives solvency issues across the global economy, followed by a deleveraging cycle and a credit crunch that overwhelms efforts to inject liquidity. While this may eventually lead to a more robust recovery the near-term impacts would be devastating for markets.

The only appropriate investment strategy while market pricing signals are heavily distorted by liquidity is one that is neutral to the inconsistencies building between prices and earnings across the market.

In this environment it is dangerous to take comfort from rallying markets and cyclicals starting to outperform. It is also fruitless to fight against it. Markets are largely being driven by government policy and sentiment can shift rapidly, leaving investors stranded when pursuing a style tilt. The current rally in value stocks is sustainable for a time as liquidity drives markets higher and optimism and risk appetite are buoyed. However, in the medium term we expect growth and inflation to remain anaemic as distortive policies and excessive leverage weigh in. With markets increasingly distorted and disconnected from fundamentals, style neutrality takes on even greater importance in an investment process.

Sean Fenton is Chief Investment Officer at Sage Capital. This article contains general information only and does not consider the circumstances of any investor.

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Why the stock market rallies cannot be justified

Moray Vincent

While there is a consensus amongst most economists that the impact of the upcoming recession will be worse than the GFC but not as severe as the depression of the 1930s, this has not been reflected in global equity markets.

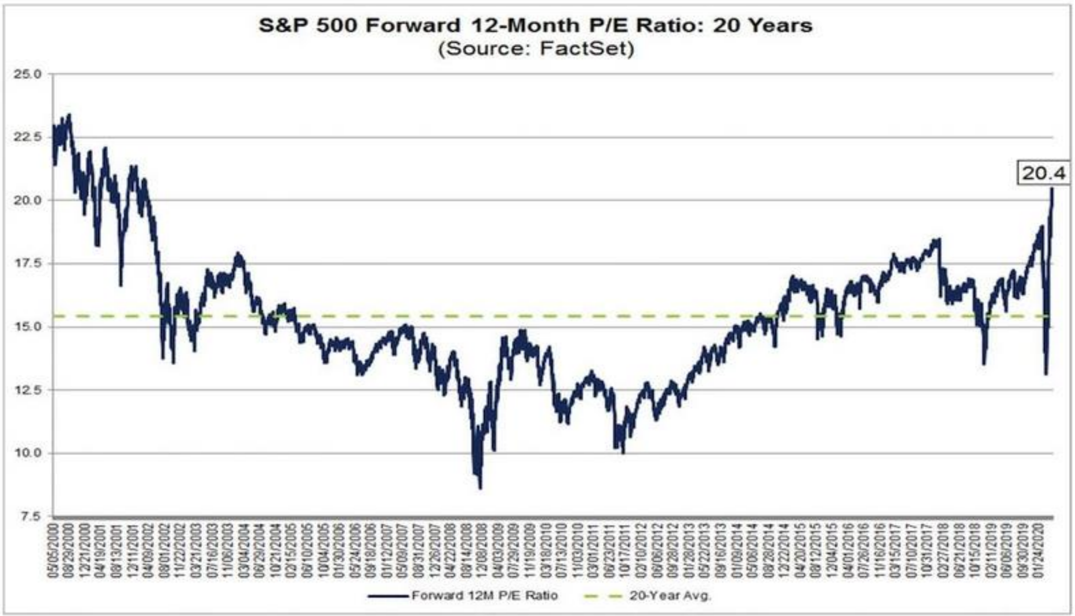
In the US, from which most stock markets generally take their lead, the COVID-19 death toll has now passed 114,000 and is continuing to rise by a weekly average of about 1,000 deaths per day. In response to a flattening of the infections curve and the lifting of lockdowns, the Dow Jones Industrial Average has rallied 48% from its March lows and is now close to its all-time highs set in February this year.

While the rate of new infections has steadied in recent months and has not risen as social distancing restrictions are eased as yet, the US is still recording new cases averaging above 20,000 per day and recently passed [two milion in total](#).

In contrast, rates of infection continue to surge in Brazil, Russia and India. The highest number of worldwide daily cases recorded since the pandemic began was 130,511 on 4 June 2020 so on a global basis the virus is clearly not controlled.

Disconnect between company results and stock markets

Economically, US corporate profitability fell by over USD300 billion in the first quarter of 2020, the second-highest fall on record. Second quarter results are expected to be much worse. At the end of April the US market was trading at forward PE levels not seen since the dot com boom and has since exceeded these levels moving to a ratio of around 23.



Source: FactSet, Business Insider.

Credit ratings agency Standard & Poor's currently has a record number of 1,287 companies on negative watch or outlook for downgrade despite S&P having already downgraded 700 companies since the crisis began. Media articles are warning of an upcoming 'pandemic of corporate bankruptcies' in the US so large it may overwhelm the court system.

Geopolitical tensions between the US and China have also increased both due to accusations of the origins of COVID-19 and China's clampdown in Hong Kong. Both Presidential candidates are expected to make a 'tough on China' mantra into November as part of their electoral campaigns. Stresses also remain in the global oil markets and the precise terms of Brexit still need to be negotiated.

The mainstream rationale to justify current market pricing is the predicted effectiveness of the various economic stimulus packages of major central banks to do 'whatever it takes'. The flaw with such a rationale is these measures are being used to ameliorate a problem that did not exist before the stimulus.

More downside risk that upside potential

What if instead of borrowing an additional US$3 trillion, the US government borrowed an additional US$330 trillion and gave every American citizen a cheque for US$1 million? Will that be good for the economy? While this proposition is outlandish, it illustrates the point that unlimited quantitative easing (printing of money) is unlikely to be a panacea. If it were, why was this not the economic policy in place before the pandemic and not simply the response?

The rationale for a higher stock market relies heavily on the belief the stimulus will result in a 'V' shaped recovery where global economies bouncing back quickly with little lasting damage from the very sharp, and by definition temporary, declines in GDP and increases in unemployment.

Will the actual economic recoveries both globally and locally be 'V', 'U' or 'L' shaped? These letters representing a very sharp recovery ('V'), one which takes slightly longer to bottom out and recover ('U'), or one where there is no or a slow recovery ('L'). The equity markets are discounting the latter two possibilities and are pricing in a near certainty of the former.

It therefore appears as if there is far greater downside than upside risk. If events transpire to challenge the market expectation of a 'V' shaped recovery, without residual 'scarring' of the economy causing long term damage, then equity markets are likely to adjust their expectations downwards. It is hard to imagine what news could cause equity markets to move significantly higher; perhaps another unexpected fall in US unemployment from a record high of 14.7% to a slightly less worse 13.4% as occurred on 5 June? Even after the second-worst unemployment rate in US history, the Nasdaq composite index rallied to a new record high.

A vaccine would drive an all-time high

The acid test would be if news miraculously emerged of an immediately-available vaccine or cure for COVID–19. Such an event would take equities beyond their all-time highs in late February 2020 when COVID-19 cases were less than 1,000 a day and mainly contained within China. Such a scenario would imply a better forward outlook than pre-COVID with absolutely no short- or long-term damage done to the economy. This just does not seem cogent.

To accept such an argument is to ignore the parable of the Broken Window as espoused by French economist Frederic Bastiat in his 1850 essay, "That Which We See and That Which We Do Not See". Bastiat argues a broken window for a shopkeeper appears to create economic stimulus for the glazier (that which we see). What is hidden is the alternate and better uses of the shopkeeper's money going to the butcher or the baker (that which we do not see).

If the COVID-19 crisis had not occurred, the stimulus funds could have been profitably used elsewhere. This alternate opportunity has now been lost. As Bastiat said, "*society loses the value of things that are uselessly destroyed*". The starkest example is the over 400,000 recorded deaths from COVID-19 so far globally. If the COVID-19 shutdown is to have no effect on future corporate earnings why not shut down the global economy for a week or a month every year and give everyone extra time at home with their families?

In Australia, while the equity markets have not been as optimistic, a domestic recession is still expected with a base case fall in GDP projected by the RBA of 9%. Unemployment rises above 10% in their latest Statement of Monetary Policy. If the US markets were to again turn bearish (and have a 'W' shaped recovery?), it is unlikely Australia will be immune.

Moray Vincent is Executive Director Amicus Advisory, an independent fixed income research firm that provides advisory services to conservative wholesale credit investors. Operating since 2008, it currently has around $1.8 billion of funds under advice. This article is general information and does not consider the circumstances of any investor.

Spending in retirement and the taper rate

Andrew Boal

There are a few key questions that people need to think about when planning for their retirement, such as:

- How much do I need (and can afford) to save for my retirement?
- How do I invest my superannuation to improve my retirement outcome?
- How do I safely draw down and spend my savings during retirement?

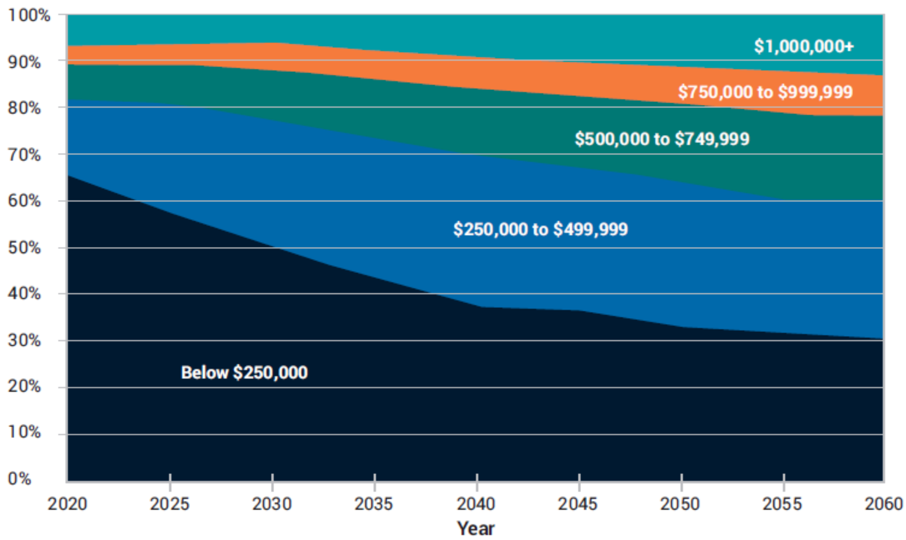
As compulsory Superannuation Guarantee (SG) contributions only commenced in Australia in 1992, starting at 3% of earnings and gradually increasing to 9% by 2002, it is fair to say that our superannuation system is still relatively immature. In addition, the SG only applies to employees who earn more than $450 in a calendar month and doesn't apply at all to the self-employed and contractors in the so-called 'gig economy'.

Large super balances are relatively new

Thus, it is only recently that a significant number of Australians began retiring with material amounts of retirement savings, with around 35% of superannuation balances at retirement reaching $250,000 or more.

Over the next 40 years, this proportion is expected to double, with around 70% of superannuation balances at retirement in 2060 expected to reach $250,000 or more (in today's dollars). Indeed, by then, around 40% of superannuation balances at retirement are expected to reach $500,000 or more (in today's dollars).

Figure 1: The Treasury: Proportion of superannuation balance ranges at retirement
(2019 dollars, AWE deflated)



Retiree confidence to draw down more

There have been numerous studies, including one by CSIRO-Monash Superannuation Research Cluster, which indicate that most retirees in their 60s and 70s draw down on their account based pension (ABP) at modest rates, close to the minimum amount each year (which is 5% of their account balance for those aged 65 to 74). This behaviour will result in them living an unnecessarily modest retirement, many behaving as if they are in poverty.

There have been many reasons proposed for why retirees behave this way, among them a fear of running out of money and uncertainty about how long they will live. Some might also want to leave the home as a bequest, so they don't consider using the equity in their residence. Hence, they try to manage their own longevity risk by spending cautiously.

Since the early 1970s, the life expectancy of the average 65-year-old has increased from about 12-13 years to 20 years for men and 22 years for women. But longevity is not uniform, it varies considerably from person to person, so some form of longevity protection will be helpful for many Australians.

A retiree's draw down and spending strategy is also driven by how much savings they have and how the assets test affects their eligibility for the age pension.

When is age pension eligibility lost?

The relevant assets test thresholds are set out in Table 1, with a full age pension applying below the lower thresholds and gradually reducing to zero when the value of assessable assets exceeds the upper thresholds (noting that some assets are excluded from the assets test, such as a person's main residence).

Table 1: Assets test thresholds (indexed at September 2019)

	Homeowners		Non-homeowners (renters)	
	Lower Threshold	Upper Threshold	Lower Threshold	Upper Threshold
Singles	$263,250	$574,500	$473,750	$785,000
Couples (combined)	$394,500	$863,500	$605,000	$1,074,000

If a retiree has less than $300,000, then they will be entitled to a full age pension for most (if not all) of their retirement and it will be their major source of income. In this situation, their superannuation savings will supplement their income and the age pension provides a good income base as well as adequate longevity protection in most cases.

On the other hand, if a retiree has more than $800,000 then they are also likely to be homeowners and, after taking into account other non-superannuation assets, are less likely to be eligible for much, if any, age pension during their retirement. In this situation, their superannuation is predominantly a substitute for the age pension and, in addition, they often have the capacity to not have to draw down as much of the capital component of their savings.

The age pension is likely to provide enough certain lifetime income for low balance members, and high balance members won't necessarily need to draw on as much of their capital anyway. But the high proportion of Australians in the middle (**with superannuation balances between say $300,000 and $800,000**) could benefit greatly from more certainty for more of their retirement income.

This 'middle' group will be eligible for a part-age pension for a substantial portion of their retirement and, as a result, the means test rules will be an important consideration for them.

For this middle group, it is therefore worth noting that legislation was passed in February 2019 to amend the means test rules that apply to longevity protection products with effect from 1 July 2019. Under the new rules, only 60% of the purchase amount of a lifetime income stream will be an assessable asset and only 60% of the payments will be income for the means tests.

These regulatory changes should, in time, promote the development of new longevity protection products such as deferred lifetime annuities (DLAs) or deferred group self-annuitisation (GSA) products which should help retirees plan their retirement spending with more confidence.

What is the 'taper rate' and when did it change?

The taper rate is another important part of the assets test used to determine eligibility for the age pension. Since 1 January 2017, a retiree's annual pension is reduced by $78 for each $1,000 of assets above the relevant lower thresholds (as set out in Table 1). Before 2017, the taper rate was half that amount, at $39.

At the time of the change to the taper rate in 2017, the lower thresholds were increased by more than 30% which, according to the government meant that more than 50,000 part-pensioners became eligible for a full pension for the first time. As the SG system matures, more people are expected to retire with higher superannuation balances and as a result of this change are expected to lose more of the age pension.

How does the taper rate impact retirees?

To understand its impact, let's look at some cameos for a worker on average annual earnings of $90,000 and compare the results for a superannuation contribution rate of 9.5% versus 12% (i.e. an additional 2.5%) paid over 40 years to age 67. Based on a marginal tax rate of 32.5%, if fully offset or sacrificed, the person's net take home pay would reduce by about $61,000 over the 40 years.

Following retirement at age 67, if the retiree is a single non-homeowner and draws down the minimum amount over 23 years to age 90, then the increased income produced by the additional savings is partially offset by a reduction in the age pension as set out in Table 2.

On the other hand, if the retiree gradually draws down all their capital over the 23 years to age 90, they not only gain the benefit of spending more of their savings, but they also become eligible for higher age pension payments sooner. Note that the 'minimum drawdown' scenario ignores any residual payments to beneficiaries and focuses on spending in retirement.

Table 2: Accumulated increase in annual retirement income over 23 years to age 90

	$78 annual taper rate (current since 2017)	$58.50 annual taper rate	$39 annual taper rate (rate before 2017)
Minimum drawdown	$21,000	$43,000	$64,000
Capital drawdown to age 90	$73,000	$85,000	$96,000

As Table 2 shows, if the retiree draws down and spends the minimum amount each year, the annual taper rate would need to be close to $39 for the retiree to receive total additional retirement payments higher than the accumulated reduction in the person's net take home pay of $61,000.

Based on the current taper rate of $78, the retiree is caught in a 'trap' whereby their total additional retirement payments over the 23 years to age 90 (i.e. $21,000) are $40,000 lower than the accumulated reduction in the person's net take home pay to fund their higher retirement savings.

The retiree would be in fact be better off under a $78 annual taper rate if they also gradually draw down and spend all their capital by age 90. In this scenario, the retiree's overall net benefit would further improve with the lower taper rates.

A higher taper rate does encourage retirees to spend their savings as quickly as possible until they become eligible for the full age pension, but there is little evidence that this occurs in practice.

The confidence to spend

One of the problems facing retirees is the complexity around the means test. We need to find a way to deliver appropriate advice cost-effectively to help the growing number of people entering retirement with sufficient superannuation savings to encounter these problems. In particular, the 'middle' group identified earlier, who will be eligible for a part-age pension for a substantial portion of their retirement, need this guidance the most.

If one of the objectives of the superannuation system is to '*facilitate consumption smoothing over the course of an individual's life*', then this 'middle' group would benefit from:

- encouragement to acquire longevity protection to give them more confidence to spend their savings during retirement
- a fairer taper rate that does not unduly encourage them to spend their retirement savings too quickly, and
- low cost access to information, guidance and advice to help them make better decisions about their retirement.

Given the interconnectedness of the system, it is important that all the relevant levers are considered in conjunction with each other, including how it impacts on the efficiency and effectiveness of any other changes such as increasing the SG to 12%.

Andrew Boal is the CEO of Rice Warner. He specialises in providing actuarial and strategic consulting advice to leading companies and superannuation funds. This article is general information and readers should seek their own professional advice. It is an extract from the Actuaries Institute Dialogue Paper called 'Spending in Retirement'. A full copy of this paper can be found here.