Switzer Super Report

Issue 369, 5 March, 2015

Under the bridge

Charlie reckons a 200% gain is enough for him and he's getting out of Qantas. But where do you invest the proceeds? Today he suggests a couple of stocks, including Sydney Airports and Crown (which he wrote about last week).

Also in the *Switzer Super Report*, Barrie Dunstan says that a million dollars will not be enough for a good retirement and the government needs to back off SMSFs.

Short n Sweet looks at exchange traded funds and a number of new products on the market and *Buy, Sell, Hold – what the brokers say,* has upgrades for Caltex and Sydney Airports. You'll also notice that we're now including the number of brokers that have buy/sell/hold ratings on a company.

Sincerely,

Peter Switzer

Inside this Issue

The new monopoly toll bridge – Sydney Airport
by Charlie Aitken
02

02 **The new monopoly toll bridge – Sydney Airport**
by Charlie Aitken

05 **Buy, Sell, Hold – what the brokers say**
by Staff Reporter

07 **Short 'n' Sweet – ETFs**
by Penny Pryor

08 **$1 million is not enough**
by Barrie Dunstan

10 **Proof of ownership**
by Tony Negline

12 **Everything you need to know about anti-detriment payments**
by Graeme Colley

14 **Time to get out of Platinum and Metcash?**
by Questions of the Week

switzersuperreport.com.au

Switzer Super Report is published by Switzer Financial Group Pty Ltd AFSL No. 286 531
36-40 Queen Street, Woollahra, 2025
T: 1300 SWITZER (1300 794 8937) F: (02) 9327 4366

Important information: This content has been prepared without taking account of the objectives, financial situation or needs of any particular individual. It does not constitute formal advice. For this reason, any individual should, before acting, consider the appropriateness of the information, having regard to the individual's objectives, financial situation and needs and, if necessary, seek appropriate professional advice.

The new monopoly toll bridge – Sydney Airport

by Charlie Aitken

Key points

- *Qantas has had a 200% share price appreciation but the next 20% gain in the share price will be much harder and slower which means its time to consider profits.*
- *Crown and Sydney Airports are two companies worth considering. Sydney Airports has a monopoly like status.*
- *Sydney Airport has the potential for another 16% total return in the year ahead.*

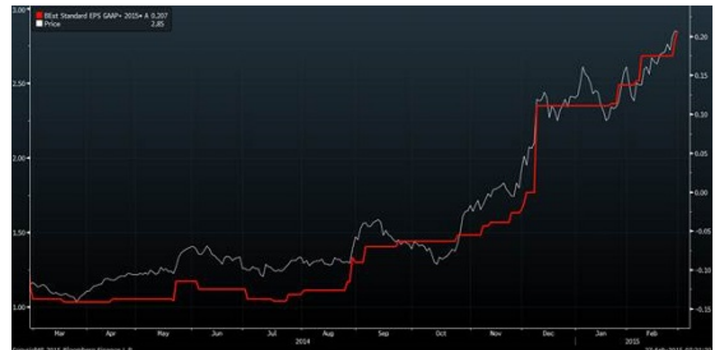
Qantas Airways (QAN) has been my single best "trading idea" of the last 14 months. From a low point of 95c back in December 2013, Qantas shares have gained +200%. This week I am recommending "taking trading profits" in Qantas.

The trade

Airlines are trading stocks: always have been, always will be. They are not long-term investment grade, in my opinion, due to the fact they control very few of the variables in their business.

Qantas was clearly undervalued at the bottom of its earnings and sentiment cycle, yet now it is fairly valued with optimistic sentiment, and that means from a trading perspective, it is the right time to be locking in the substantial capital gains and look for other ways of making our capital work hard for us.

Pretty much everything went right in this Qantas "trading idea". The oil price collapsed, the Australian dollar collapsed, the domestic capacity war ended and Qantas's earnings recovered as confirmed in last week's interim earnings result. The Qantas share price has tracked the FY15 consensus EPS revisions up as illustrated below.



That drove a 200% share price appreciation and that's enough for me. Despite Qantas management doing an excellent job, I suspect the next 20% gain in the Qantas share price will be much harder and slower than the last 200%, and that is why I am recommending taking trading profits this week.

My final reason for recommending taking trading profits is all the analyst bears from 95c are now bulls with price targets above the current share price. The contrarian in me is happy to feed trading stock into that major sentiment change. The buy/hold/sell ratio is now 11/1/1 and median price target $3.49.

New ideas

So where do we reinvest our trading profits from Qantas?

Last week I wrote in depth about the structural growth Crown Resorts (CWN) offers and that is one of the stocks (CWN cum 18c div) I would reinvest Qantas proceeds in to keep myself exposed to the Australian inbound tourism theme.

The second idea is **Sydney Airport (SYD).** I think it's time to take trading profits in Sydney Airport's largest customer, Qantas, and reinvest in the airport itself. Sydney Airport has been a member of my high conviction list but I want to use the slight post reporting pullback to increase weightings. The chart below confirms Qantas has now outperformed Sydney Airport on a two-year common performance base and that to me says it's now time to own the airport not the airline.

SYD (blue) vs. Qantas (green): common performance base 2 years

Sydney Airport is a macro meets micro idea. The falling Australian dollar is improving Australia's relative value as a tourism destination. Sydney Airport is Australia's gateway airport. Airline capacity into Sydney Airport is increasing. Passenger numbers are increasing. Sydney Airport's margin per passenger is increasing. The risk free rate is collapsing.

Sydney Airport is effectively a structural "growth bond" yielding 5.00% (unfranked) for 12 months. It's yield premium of 2.45% to a 10yr Australian government bond (2.55%) will narrow in the years ahead. Inversely, Sydney Airport capital growth will come from yield compression.

Warren Buffett famously said ***"a monopoly toll bridge is my dream investment"***. Sydney Airport is a "monopoly toll bridge" that now has strong macro tailwinds for activity and valuation.

Sydney Airport does have a genuine strategic, structural advantage over other Australian airports. Just consider the figures below. Look away good people of Melbourne, this might hurt a little.

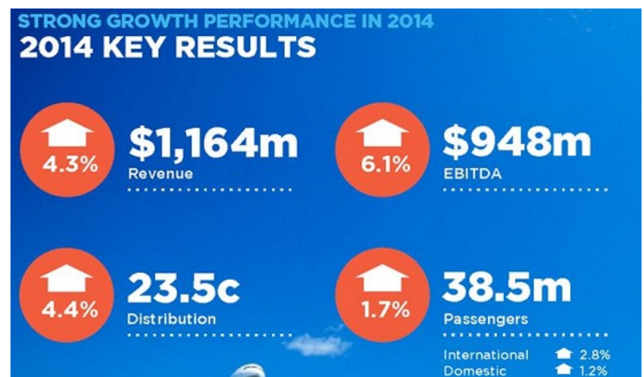
Monopoly money

Sydney and NSW combined benefit from:

- 32% of Australia's population;
- 41% of Australia's top 500 companies' headquarters;
- 90% of international banks' regional headquarters;
- 34% of Australia's international visitor bed nights;
- Sydney Airport's 40% share of Australia's international passengers;
- 42% share of Australia's premium traffic;
- 37% share of Australia's outbound leisure traffic;
- 517,000 tonnes or 47% of all international air cargo into Australia; and
- $65 billion value of air cargo each year.

Last week Sydney Airport confirmed CY14 earnings and confirmed a final distribution of 12c. They also guided to another 25c of distributions in 2015 (+6.5% on 2014).

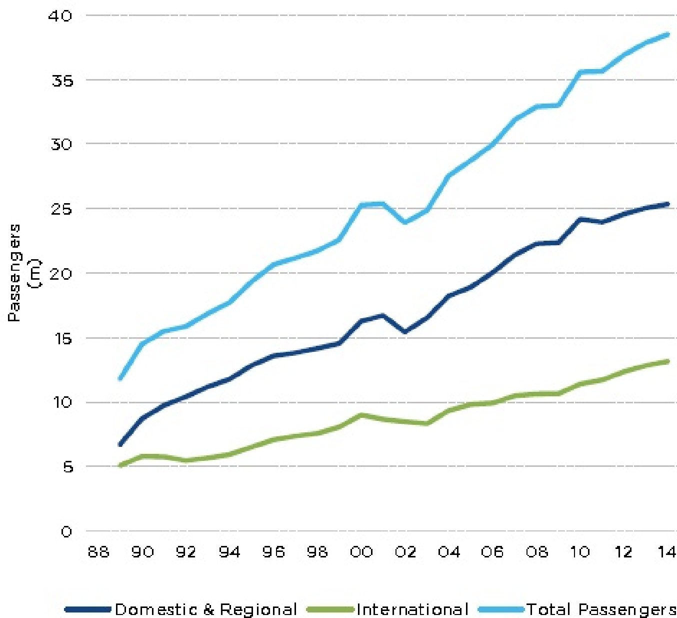
I only EVER play yield-based strategy in individual stocks where the underlying earnings are RISING. Sydney Airport has a rising earnings base as confirmed in last week's 2014 result.



Which is translating to distribution growth. This is a textbook “structural growth bond” with strong management extracting high levels of economic rent from the monopoly asset base. I can fully understand why Sydney Airport’s register is dominated by major pension funds, both global and local, looking for a predictable and growing income stream.

Sydney Airport also confirmed the data I used in my Crown note from last week about increases in bilateral air capacity between China and Australia. This remains big news yet not widely known.

I’d own Sydney Airport over any form of fixed interest, every day of the week. The confirmation of that view is long-term traffic growth data, which clearly shows structural passenger growth at Sydney Airport. This will continue and will accelerate in the years ahead as Asian capacity is added.



The valuation

The way I value Sydney Airport it is to consider it a “structural growth bond” and price it relative to Australian Government bonds. At $5.00 the prospective 2015 distribution yield is 5.00%.

Over the months ahead I expect Sydney Airport’s distribution yield to be bid down to 4.50%, a 200 basis point premium to a 10yr AGB yield.

A 4.50% distribution yield equates to a $5.55 12-month share price target on Sydney Airport.

With the potential for another 16% total return in the year ahead, I rate Sydney Airport a high conviction buy and the stock remains a core member of my high conviction portfolio as we enter a medium-term period of low or even lower cash rates and an associated lower Australian dollar.

Sydney Airport wins on yield compression and revenue growth in that scenario.

Take trading profits in Qantas, switch to Sydney Airport.

Important: *This content has been prepared without taking account of the objectives, financial situation or needs of any particular individual. It does not constitute formal advice. Consider the appropriateness of the information in regards to your circumstances.*

Buy, Sell, Hold – what the brokers say

by Staff Reporter

There were still plenty of downgrades, particularly to retailers like Harvey Norman and Woolworths, at the tail end of reporting season.

In the good books

Citi upgraded Caltex (CTX) to Neutral from Sell. Citi has taken the view that interest rates are going to stay lower for longer. With investors seeking yield in relatively less risky equities, the analysts believe Caltex in its new format, ex-Kurnell refinery, will come into focus. This has led to a re-assessment of Citi's valuation for the stock. Citi sees longer-term challenges, but shorter term the yield and solidity of the growth profile are likely to prevail. Buy/Sell/Hold 0/2/5.

Credit Suisse upgraded Sydney Airport (SYD) to Outperform from Neutral. The company has a strong market position and could create value from renegotiating international aeronautical changes and from the development of the new western Sydney airport. Sydney Airport has first right of refusal in the development of the new airport and the government's need to incentivise the investment reduces regulatory risk at the existing airport. Buy/Sell/Hold 3/0/4.

In the not so good books

Credit Suisse downgraded Aristocrat Leisure (ALL) to Underperform from Neutral. The AGM has raised questions about Video Gaming Technologies (VGT). Credit Suisse suspects the company is implying a flat market in Oklahoma, where its newly-acquired business derives 90% of earnings. Credit Suisse downgrades to Underperform from Neutral on share price strength. Buy/Sell/Hold 5/1/1.

Deutsche Bank downgraded Graincorp (GNC) to Hold from Buy. The downgrade to FY15 guidance has resulted in Deutsche Bank reducing forecasts by 35% and highlights the continuing challenges in another below-normal season. Buy/Sell/Hold 0/3/3.

Credit Suisse downgraded Harvey Norman (HVN) to Neutral from Underperform and Macquarie downgraded to Underperform from Neutral. First half results were solid and a little better than Credit Suisse expected. Benefits from the housing market are expected to continue in the medium term. Macquarie has raised earnings forecasts as a result but despite strong sales and profit growth, is downgrading to Underperform. It believes the stock has run too far in 2015. Buy/Sell/Hold 4/3/1.

Credit Suisse downgraded Myer (MYR) to Neutral from Outperform after Bernie Brookes stepped down as CEO to be replaced by Richard Umbers. CFO Mark Ashby will also leave in May. The timing, two weeks prior to the first half results, has raised some eyebrows at Credit Suisse. Buy/Sell/Hold 1/2/5

Credit Suisse downgraded Woolworths to Neutral from Outperform, Deutsche downgraded to Hold from Buy, Macquarie downgraded to Underperform from Outperform and Morgans downgraded to Hold from Add. A change in strategy and guidance downgrades to the low end of consensus forecasts signals to Credit Suisse that the main issue is just how much profit decline Woolworths will endure to improve its market position. Deutsche considers the results a sideshow, given reductions in guidance and plans for heavy investment. Macquarie is downgrading straight to Underperform from Outperform, suggesting the share price will not recover until a detailed investment strategy is clearly outlined. And appears to Morgans that the company has decided to sacrifice second half earnings in order to restructure parts of the business. Buy/Sell/Hold 0/5/3.

The above was compiled from reports on FNArena, which tabulates the views of eight major Australian and international stock brokers: BA-Merrill Lynch, CIMB, Citi, Credit Suisse, Deutsche Bank, JP Morgan, Macquarie and UBS.

Important: *This content has been prepared without taking account of the objectives, financial situation or needs of any particular individual. It does not constitute formal advice. Consider the appropriateness of the information in regards to your circumstances.*

Short 'n' Sweet – ETFs

by Penny Pryor

Exchange traded funds are a great way to get exposure to a particular market, asset class or country. If you have a feeling that Europe might do well – like Paul did last March and Peter did earlier this year – you could invest in the iShares Europe ETF (IEU) or the Vanguard All-World ex US Shares Index (VEU). Both these ETFs have outperformed over the last 12 months, but especially in the last six months.

IEU

Source: *Yahoo!7 Finance, 5 March 2015*

VEU

Source: *Yahoo!7 Finance, 5 March 2015*

Over the past 12 months Peter has also suggested broad market ETFs – the SPDR S&P/ASX 200 (STW) was up over 12% for the 12 months to the end of February – and oil ETFs, which Peter wrote about last December.

ETFs and exchange-traded products (ETPs) are becoming a very popular way for investors to access certain markets and strategies. For example, international equities manager Magellan today launched a listed version of its Magellan Global Fund (MGE), which will be available on the Australian Stock Exchange's Aqua platform.

"The success of the current generation of ETFs globally points to the likely rapid growth in the next generation of ETMFs (exchange traded managed funds) as the needs of investors, regulators and fund managers find an appropriate equilibrium," Hamish Douglass, Magellan's CEO and chief investment officer said.

And if you have some scruples when it comes to investing, you might be interested in the UBS IQ ethical ETFs. They have just launched four ETFs: the UBS IQ MSCI Australia Ethical ETF (UBA); UBS IQ MSCI World ex Australia Ethical ETF (UBW); UBS IQ MSCI Europe Ethical ETF (UBE); and UBS IQ MSCI USA Ethical ETF (UBU).

These are ETFs over indices tailored for UBS by MSCI with an ethical bent – i.e. they exclude certain stocks. UBS will launch two more ethical ETFS will be launched this month.

"We've got another four in our pipeline. Whether they get launched this year or next year we haven't decided," head of UBS global asset management, Bryce Doherty, said.

"We've definitively got fixed income in the pipeline."

Important: *This content has been prepared without taking account of the objectives, financial situation or needs of any particular individual. It does not constitute formal advice. Consider the appropriateness of the information in regards to your circumstances.*

$1 million is not enough

by Barrie Dunstan

Key points

- *At current interest rates a $1 million super portfolio invested in guaranteed one-year term deposits will struggle to earn $30,000.*
- *That's 15% above the poverty line and 14% below what couples need for a "modest" retirement.*
- *This year, pensions paid out by super funds are likely to exceed lump sum payouts.*

Potential knee jerk reactions to allegations of SMSF retirees taking advantage of tax concessions, which favour the rich, ignore the new realities of Australia's $1.9 trillion superannuation system. Even as low interest rates drive share prices higher and boost funds' assets, the same factor depresses the likely retirement income those assets can earn.

And, as David Murray's FSI report argued and today's Inter Generational Report emphasises, the key element in super is the expected retirement income for members – and possible offsets to burgeoning age pension costs.

Income focus

With interest rates at lifetime lows – and likely to go even lower in the short term – suddenly a $1 million super portfolio no longer represents riches for the fund's members. A risk-averse SMSF investing $1 million in guaranteed one-year bank term deposits will struggle to earn $30,000.

That's only about 15% above the poverty line (as calculated by the Melbourne Institute) and about the same as the minimum age pension for each member of a couple. It's about 13% below what couples need for a "modest" retirement, according to the Association of Superannuation Funds of Australia.

Even if SMSF members look to an assured income via an annuity, Challenger is currently quoting annual payouts for a 65-year-old male, which represent between 3.2% (fully indexed for inflation) to 4.3% (without inflation protection) on their capital. Longer-living women receive slightly less.

In other words, when interest rates are so low, there are no free lunches when it comes to retirement incomes.

Of course, as every second adviser is spruiking, SMSFs can boost income with dividends from higher-risk shares but relentless arithmetic is making this harder for SMSFs. This is because of the combination of low interest rates and the ATO's minimum pension amounts.

To earn enough to pay the minimums (see ATO table of minimum pensions below) without running down their capital, SMSFs need to run retirement income portfolios with growth-type asset mixes of perhaps 70%-plus in equities.

Age	Minimum Pension (% of account balance)
Under 65	4%
65 – 74	5%
75 – 79	6%
80 - 84	7%
85 – 89	9%
90 – 94	11%
Over 95	14%

With a share market, and the domestic property market, showing signs of altitude sickness, investors chasing higher yields risk investing near the top and losing part of their irreplaceable capital. So, while it might seem difficult to convince those howling for tougher rules for millionaire super funds, these are tough times for retirees who aim to be self-funded.

The big shift

They also are changing times. The latest APRA figures show pensions paid out by super funds in 2014 rose from $24.5 billion to $27.7 billion and, at current growth rates, this year will exceed lump sum payouts of $28.7 billion in 2014. The system has crossed the line and is now paying out more in pensions than lump sums – at just the time you don't want low interest rates.

Those peddling the line about millionaire SMSFs should recall that when fund returns were threatened by falling share prices during the GFC, the government halved the minimum payments to avoid pressuring fund balances. But, then, when the GFC was ending in 2008, bank term deposit rates were around 8%, showing how changed economic circumstances can play havoc with the best-planned retirement income plans.

This emphasises the policy danger of jumping to short-term solutions to solve long-term budgetary problems. The dangers only increase when critics assume, wrongly, that the figure of $32 billion of tax concessions on super is potential budgetary savings. To put it simply, that figure is theoretical and simply can't be assumed to be available to add to Budget revenue.

Remember, superannuation is a very long-term program, which has only been going for a quarter of a century. It is already straining to meet the retirement needs of the baby boomer bulge. Into the future the government needs to recognise the long-term commitment of fund members, who lock away part of their earnings for retirement, under rules that offer enough incentive to forsake current spending.

The fact that many SMSF members receiving a pension from their fund face the unenviable choice between very low payments, or the risk of losing capital in an increasingly expensive share market, only underlines the looming investment problems for most funds.

In the meantime, for SMSF members who don't want to take too much risk in the share market, the arithmetic suggests they probably need assets of more like $2 million than $1 million – or a Warren Buffett type investment record, which shoots the lights out.

Important: *This content has been prepared without taking account of the objectives, financial situation or needs of any particular individual. It does not constitute formal advice. Consider the appropriateness of the information in regards to your circumstances.*

Proof of ownership

by Tony Negline

Key points

- *If you have no proof of ownership, or cannot find proof of ownership, the Court has a precedent for deciding those assets don't belong to the SMSF.*
- *Unstamped trust documents are inadmissible in court.*
- *Never forget that you can't acquire assets from related parties.*

Can you prove your super fund owns every asset? If you're unsure you might want to check.

Take the following problems that were discussed on an online SMSF discussion forum recently about an individual trustee, two-member SMSF that has owned three different WA properties since sometime in 2001. The two fund members are husband and wife.

There are slightly different aspects to each property as follows:

1. A factory was bought by the husband in 1996 and transferred to the super fund in 2001. The problem with this property is that its title is only in the name of the husband and not in the two individual SMSF trustees. In 2001 it appears that an incorrect declaration of trust document was prepared, claiming that both the then current owners of the property were husband and wife. In any event, this declaration hasn't been signed by the previous owners and SMSF trustees. It also hasn't been stamped and lodged with the WA revenue authorities and titles office

2. It appears that the next property was purchased by the super fund in 2006 and is held in the husband's and wife's names. The purchase contract has long disappeared. Bank statements, that might be useful as evidence of the purchase, are also no longer available. There is no declaration of trust over the property on file.

3. The last property was also purchased in 2006 by the husband and wife. Their names appear on the contract of sale and the property's title documents. It has been stated that this property was transferred to the super fund in 2009. There are no transfer documents but an unstamped declaration of trust document is in the fund's files. The 2009 SMSF bank statements show a large withdrawal, which is said to be for the purchase of this property. This property is residential real estate and unlikely to be business real property

So the key questions worth exploring now are firstly, are these assets owned by the super fund; secondly, have the assets of the super fund been kept separate from the personal and business assets of the fund's trustees and members; and finally, ordinarily super funds cannot acquire residential real estate from a member of the fund so did the super fund breach a basic superannuation rule?

Linder v Linder

In the Family Law Court case, Linder v Linder that I wrote about a while ago, there was some argument about the "Linder" SMSF's ownership of listed shares which had been purchased in several parcels. The fund had individual trustees. One parcel was in the name of the husband and wife with no mention of the SMSF and no evidence could be found showing the SMSF had paid for these assets. The Court decided that those shares weren't part of the SMSF for property settlement purposes.

Unstamped trust declarations

As I understand it, declarations of trust that haven't been stamped by the relevant state or territory's revenue authority aren't admissible in a court. This makes it very difficult for a super fund to enforce its ownership of an asset.

Sydney based financial services lawyer, Peter Bobbin, said on the SMSF web forum that Sec 279 of the WA Duties Act states that unless a transaction record is duty endorsed (ie stamped) then it can't be recognised by a court or tribunal. That is, the unstamped trust declarations appear worthless.

Duties Acts for NSW (Sec 304), Victoria (Sec 272) and Queensland (Sec 487) all have similar provisions.

Double Stamp Duty

Depending on the wording of the Duties Act in each state and territory it's also possible that double stamp duty might be payable if the transfers were now to be formalised – once for the transfer and once for the declaration.

Possible future strife

As noted above, it would seem that the third property probably shouldn't have been purchased by the super fund as it's residential real estate.

The super laws contain a few pertinent provisions here. Firstly, the penalty for super funds acquiring assets from members and other related parties is one-year jail.

As I detailed in October last year, the super laws give the ATO a range of powers to address the possible illegal acquisition of the residential property from the super fund. The trustees will also have to deal with WA revenue authorities.

Finally, you can easily conclude here that the assets of the super fund and its members haven't been kept distinctly separate.

Interestingly these issues have only come to light because the fund has a new auditor who noticed these problems.

If the fund's new auditor reports these contraventions then it's reasonably safe to assume the ATO would review the fund. If it had problems with the fund's record keeping and compliance with the super laws, then it might want to have a serious chat with the super fund's trustees and its former auditor.

Two final points

There are some good lessons in this case for all SMSFs. Inaccurate, incomplete or el-cheapo documenting of transactions is more than likely going to lead to trouble.

One interpretation of the above events is that the trustees have been too distracted to perform their trustee functions. It may be that they have legitimate excuses. The ATO might take that into account.

Secondly, they might also have relied on their advisers, who perhaps didn't know the super laws as well as they should. In my many years of experience with superannuation, it would be fair to say that many accountants don't know what they don't know about super and are too busy to find out.

How are you meant to judge the competency of your trusted advisers? You might get a second or third opinion before major surgery or house renovations. I suggest you apply the same principle with your superannuation affairs.

Important: *This content has been prepared without taking account of the objectives, financial situation or needs of any particular individual. It does not constitute formal advice. Consider the appropriateness of the information in regards to your circumstances.*

Everything you need to know about anti-detriment payments

by Graeme Colley

Key points

- *An anti-detriment payment can increase net benefits to remaining SMSF members in some situations.*
- *The SMSF needs to have adequate cash flow and/or reserves to make the anti-detriment payment.*
- *The fund must continue to have taxable income to gain any benefit of the amount that can be claimed as a deduction.*

Have you ever sat in front of an adviser or accountant and been told that you should think about anti-detriment payments if you died? After the usual look of wonderment you may ask the obvious, “what the hell’s that?”, and be given a talk about the extra amount your spouse and children could receive as a clawback of tax paid on your superannuation contributions. You may even be told that you should compare it with the benefits of the recontribution strategy which just adds to the mystery of what you have heard. All worthwhile stuff, but what does it really mean?

An amount added to your death benefit superannuation lump sum to be paid to your spouse or children may sound good, but as usual, it depends on the individual’s circumstances, the SMSF’s cash flow and reserves and whether or not the SMSF will continue to have taxable income.

What is an anti-detriment payment and must they be paid?

An anti-detriment payment is the term given to an additional payment made to the surviving spouse or child of a deceased member, as part of the death benefit claim. In most cases it would be authorised by the trust deed and other rules of the superannuation fund. It is intended to largely represent a refund of the 15% tax paid on tax deductible contributions made for the member throughout their life.

It is interesting to note that there is no compulsion for superannuation funds to make anti-detriment payments on the death benefit lump sums of deceased members, rather it is a recommendation by the Australian Prudential Regulatory Authority (APRA).

When does an entitlement to an anti-detriment payment arise and how is it calculated?

Where a death benefit is paid as a lump sum to a spouse, former spouse or a child (of any age) of the deceased, it may be increased by an amount representing the anti-detriment payment. The anti-detriment payment applies only to death benefit lump sums and does not apply to superannuation death benefits taken as income streams.

To calculate the maximum amount of the anti-detriment that can be paid the ATO has provided a formula to assist with the calculation. It was published in ATO ID 2010/5 which was released in January 2010 as follows:

$$\text{Anti-detriment payment} = \frac{0.15P \times C}{R - 0.15P}$$

where:

P = the number of days in component R that occurs after 30 June 1988
R = the total number of days after 30 June 1983 in the eligible service period
C = the taxable component of the lump sum.

When is the payment made by the trustee of the superannuation fund?

The trustee of the superannuation fund pays the lump sum, including the anti-detriment amount, to the beneficiary at the time the death benefit is paid. The fund is able to recoup this amount by claiming a tax deduction against other taxable income of the fund.

In relation to SMSFs, anti-detriment payments can be problematic for a couple of reasons. First, the SMSF needs to have adequate cash flow and/or reserves to make the anti-detriment payment as the amount cannot be paid from the balances of other members. Secondly, the fund must continue to have taxable income to gain any benefit of the amount that can be claimed as a deduction. If the fund is to be wound-up after the death of the last member or if the fund is wholly in pension phase, there would be no benefit in making an anti-detriment payment.

Can a partial anti-detriment payment be made in certain circumstances?

Yes. A partial anti-detriment payment is able to be made where only a portion of the death benefit is being paid to a spouse, former spouse or a child of the deceased. The formula provided by the ATO is the calculation of the maximum amount of anti-detriment payment that is available and there is no mandatory requirement to pay the whole amount.

Take for example the situation where on the death of a member 60% of their superannuation death benefit will be paid to the member's spouse and 40% of it will be paid to the member's parents who have been classified as dependants for taxation purposes. The trustee of the fund is able to increase the lump sum to the member's spouse by the amount of the anti-detriment payment that the spouse is entitled to receive. Whereas the parents of the member are not entitled to any anti-detriment payment as they are not the spouse or child of the deceased as required under the legislation.

How does an anti-detriment payment compare to a recontribution strategy?

A recontribution strategy involves withdrawing benefits from a member's superannuation account and recontributing the amount back into the fund as a non-concessional (non-tax deductible) contribution. The benefit of the strategy is to convert taxable components of a person's benefit into tax-free components. It is only possible to execute this strategy if the amount can be withdrawn from the fund, that is, a non-preserved benefit. A benefit in the fund will be non-preserved when a person reaches a condition of release such as permanent retirement or age 65, whichever, occurs first.

The recontribution strategy is a worthwhile estate planning strategy as it converts taxable components of a person's account balance to non-taxable components. This is useful on the death of the member if part or all of a death benefit would have been taxable but after the execution of the strategy is tax free. Its main advantage is where non-dependants of the deceased, children 18 or older, receive a death benefit lump sum. In all other cases, death benefit lump sums are tax free in the hands of a dependant for tax purposes irrespective of whether the lump sum includes a taxable component.

The main disadvantage of the recontribution strategy is that it reduces the amount of anti-detriment amount payable. This is because the anti-detriment payment is calculated on the taxable component of the lump sum. As you can see it is a balancing act to decide which strategy will give the greatest benefit where non-dependants for tax purposes are to receive the benefit.

The following example explains the benefits of each.

Peter has $400,000 of superannuation benefits of which 100% is taxable with an eligible service date of 1 July 1988 (when the member joined the superannuation fund).

	Situation 1 No recontribution strategy, benefits paid to spouse (Andrea)	**Situation 2** No recontribution strategy, benefits paid to adult son (John)	**Situation 3** Recontribution strategy benefits paid to either Andrea or John
Taxable component	$400,000	$400,000	
Tax-Free component	Nil	Nil	$400,000
Anti-detriment payment at 17.647%	$70,588	$70,588	Nil
Total benefit (before tax)	$470,588	$470,588	$400,000
Tax payable	Nil (paid to a dependent)	$77,647.02 ($470,588 @ 16.5%)	Nil
Net benefit	$470,588	$392,940.98	$400,000

Click here to view larger image

The above example shows that the net benefit to Peter's spouse Andrea is higher than if a recontribution strategy was utilised. However, if John was to receive the death benefit lump sum it would be more advantageous if Peter had executed a recontribution strategy prior to his death.

Important: *This content has been prepared without taking account of the objectives, financial situation or needs of any particular individual. It does not constitute formal advice. Consider the appropriateness of the information in regards to your circumstances.*

Time to get out of Platinum and Metcash?

by Questions of the Week

Question: I bought Platinum Asset Management at $6 as recommended in view of the falling Australian dollar. I am an investor, not usually a trader, but in view of their decline over the last few days should one hang in there? Presumably the decline reflects disappointment with their half-yearly report.

Answer (By Paul Rickard): Platinum Asset Management is now trading at $8.21 – so you have had a good gain.

Yes, the fall from a high of $9.30 reflect disappointment with earnings result, and subsequent broker downgrades.

According to FN Arena, broker sentiment on Platinum Asset Management is negative at -0.3 (scale -1.0 is most negative to +1.0 most positive), with a consensus target price of $8.09.

Question 2: Do you think Metcash, bought in the mid $3s is worth another go to average cost back?

Answer 2 (By Paul Rickard): As I am not really a huge fan of averaging down (particularly on a stock that is a long way south), I would say no.

In regards to the brokers, they are arguably a little more positive. Although sentiment is negative at -0.4 (range -1.0 to +1.0), their consensus target price of $2.23 is almost 50% higher than the current market price.

Important: *This content has been prepared without taking account of the objectives, financial situation or needs of any particular individual. It does not constitute formal advice. Consider the appropriateness of the information in regards to your circumstances.*

Don't miss!

According to the ***Intergenerational Report*** out today – there are going to be a lot more of us living to 100 in 40 years time.