

# Lifestyle Focus

## Spring 2016



Image source

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Less than 20% of retiring individuals and less than 30% of retiring couples aged over 65 are able to retire comfortably. Are you in their number?

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What is it? Who does it? And how does it stack up against other styles?

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Putting the spotlight on industry super insurance.

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The obligations and responsibilities of an executor of an estate are extensive and if inadvertently mishandled, there can be severe consequences for the executor. Do you want to put a family member or a friend under that pressure?

- **Top 10 SMSF compliance mistakes**

With the ATO increasing the penalties for compliance mistakes for SMSF's, now is a good time to make sure you're doing everything by the book.

- **Get into Spring!**

A few ideas for what you can get up to as the weather starts warming up.

- **OzHarvest Great Food Rescue Race**

Help South Australians who are doing it tough.

## Strategic Advice

### Will you retire comfortably?

The Association of Superannuation Funds of Australia (AFSA) defines a 'modest' retirement lifestyle as one which is better than the Age Pension but where the retiree is still only able to afford basic activities. A 'comfortable' lifestyle is defined as when a retiree is able to "be involved in a broad range of leisure and recreational activities and to have a good standard of living through the purchase of things such as; household goods, private health insurance, a reasonable car, good clothes, a range of electronic equipment, and domestic and occasionally international holiday travel." In both cases, it is assumed that the retirees own their own homes outright and are relatively healthy.

ASFA's research indicates that individual retirees require at least \$545,000 in super in order to have a comfortable lifestyle in retirement, whilst couples will require at least \$645,000. They have also found that whilst the cost of living for retirees did reduce slightly during the March quarter, less than 20% of retiring individuals and less than 30% of retiring couples aged over 65 are reaching this standard of living.

When going it alone, many of us feel unprepared for retirement. According to MLC, nearly half of all Australians not currently working with a financial advisor feel that they do not have enough superannuation to see them through their retirement. Of those receiving financial advice however, 76% were more confident and were much more likely to agree that they would rely on their superannuation in retirement.

We're still not happy with that number, and strive to ensure that 100% of our clients feel completely comfortable with the knowledge that they will experience a comfortable and enjoyable retirement. If you have any doubts about your retirement planning, call and speak with a member of our Strategic Advice Team today.

## Taxation & Accounting Advice

### Depreciation differences: old Vs new

Property depreciation is a non-cash tax deduction available to the owners of income producing properties.

As a building gets older, items wear out – they depreciate. The Australian Taxation Office (ATO) allows property owners to claim this depreciation as a tax deduction. Depreciation on mechanical and removable plant and equipment items such as carpets, stoves, blinds, hot water systems, light shades and heaters are all valid deductions. There are also deductions available for the wear and tear of the structural element of a building, commonly called a capital works deduction.

Whilst owners of newer properties will receive higher depreciation deductions, all investment properties, both new and old, can attract depreciation deductions for their owners.

Newer properties have newer fixtures and fittings, so the starting value of those items is higher, resulting in higher depreciation deductions. The same applies to the capital works deduction where 2.5% of the structural costs of a building can be claimed per year for 40 years. Construction costs generally increase over time, making building write-off deductions on new buildings higher.

Owners of older properties can claim the residual value of the building up to 40 years from construction.

It is always worth getting advice about the depreciation potential of a property regardless of age. The deductions are not as high on older properties but there are usually enough deductions to make the process worthwhile. Give our Tax & Accounting Team a call today if you have any questions.

(Article provided by BMT Tax Depreciation)

## Investment & Portfolio Advice

### Value investing

Value investing is buying companies at less than their intrinsic value. The discount of the market price to the intrinsic value is called the “margin of safety”.

For some it's all about buying shares on low price-to-earnings ratios (PERs); others buy tangible assets for less than their book value.

The term Margin of Safety was first coined by Benjamin Graham, who is largely recognised as the father of value investing. There have been many adopters of this style and approach to investing including famous investors Warren Buffett, Charlie Munger and Seth Klarman, just to name a few. Berkshire Hathaway, the company run by Warren Buffett, is a standout example of the performance of value investing. Had you bought one share for US\$19 back in 1964, that one share would now be worth approximately US\$223,000.

Numerous studies have been published that prove value investing is a successful investment strategy over the long term, but few go so far to compare it to growth investing. Fidelity provided a reasonable analysis comparing the two styles over 25 years across different market caps in the US. Whilst well worth a [read](#) in its entirety, the summary suggests “that a value ‘tilt’ may be justified in the long run”.

In what can only be viewed as validation of this investment style (if the Berkshire Hathaway share price example wasn't enough), Seth Klarman authored ‘Margin of Safety, Risk Averse Value Investing Strategies for the Thoughtful Investor’, which has become a value investing classic. Now out of print, there are a few copies currently available on Amazon at a starting price of \$1,044.97 plus shipping. I wonder if there is any margin of safety at those prices? I'm reluctant to think what the Price to Book (pardon the pun) multiple is.

## Risk Protection Advice

### The devil is in the detail

Unless you are being advised by a qualified financial advisor, increased caution is required for those with insurances through an industry super fund.

Unlike retail contracts that are ‘guaranteed renewable’, insurance contracts obtained through industry funds are not. They have the ability to make retrospective changes and can even cancel policies; both of which can result in disadvantages to the Insured.

Total and Permanent Disability (TPD) insurance pays a benefit if the Insured Person becomes totally and permanently disabled. It provides a lump sum and may assist with debt, living and medical costs, providing a level of financial security for your family. Recent changes to the terms and definitions of TPD result in a more difficult claims process for those Insured with (but not limited to); SunSuper, AustralianSuper, Statewide, MTAA, VIC Super, REST and Australian Catholic Super.

An example includes the criticised changes to SunSuper's TPD rules effective 1 July 2016 resulting in the following:

- Five year limitation period to lodge a TPD claim. Claims lodged outside of the five year rule are no longer eligible to claim. Previously there was no time limitation.
- Pending eligibility, successful claimants may be paid either a lump sum or annual lump sums over six years. Those who will be paid annually will require a person to show they are still totally and permanently disabled every year.
- Claimants must participate in a rehabilitation program and failure to do, without a reasonable medical excuse, would result in no TPD payment being made.

The significant shifts these large industry funds have made with respect to TPD insurance doesn't mean they can't be beneficial, but it does mean that a greater deal of vigilance is required.

If you would like to ensure that the lifestyle of both you and your family will be protected in the event of something happening to you, speak with a member of our Risk Protection Advice Team today.

## Succession & Estate Planning Advice

### The role of an executor

The obligations placed upon executors of estates are considerable. Without legal advice, some obligations can be easily overlooked and could result in the executor becoming personally liable to the estate's creditors. Even with simple estates, executors can be required to:

**Notify the beneficiaries** - Locate the deceased's Will and contact all beneficiaries and business associates.

**Look after the estate** - All assets must be protected, which can include arranging insurance if required. The immediate needs of beneficiaries must also be assessed to ensure they do not suffer any unnecessary financial hardship.

**Value the estate** - The executor must identify and account for all assets and liabilities and obtain a valuation of each asset. Written confirmation from financial institutions and other relevant bodies must be obtained for each item.

**Obtain authority to administer the estate** - Apply to the Supreme Court for Probate.

**Complete income tax returns** - Clearance must be obtained from the ATO to distribute the estate. Details of all un-lodged income must be obtained.

**Pay all debts** - Creditors, funeral expenses, taxes, fees and other expenses must all be paid, which may require the sale of some assets.

**Divide the estate** - When all debts have been paid, the executor must then distribute the remaining assets according to the directions laid out in the Will.

**Establish trusts** - Executors must set up trusts for under-aged or mentally incapable beneficiaries, or if there are specific instructions in the Will. Such trusts need ongoing administration, often over many years.

Before nominating an executor, serious consideration should be given to who you choose. Whilst a family member may be your initial thought, consider whether they have the time and expertise to perform the required duties. A better choice could be a professional, such as a member of our 360Private Succession and Estate Planning Team who can take the strain away from your family and ensure the correct handling of your estate.

## Personal & Self-Managed Superannuation Advice

### Top 10 SMSF compliance mistakes

Every year, the ATO releases a list of the most common contraventions reported by SMSF auditors. Data collected up to 30 June 2015 found the most common contravention types were:

- Loan to member/financial assistance (22%)
- In-house assets (19%)
- Administrative-type contravention (10%)
- Separation of assets (13%)
- Operating standard-type contraventions (8%)
- Borrowings (8%)
- Sole purpose (8%)
- Investment at arms length (8%)
- Acquisition of assets from related parties (1%)
- Other (3%)

The percentage of SMSF's with audit contravention reports is approximately only 2% each year however, from 2015/2016, trustees face harsher fines as the ATO has increased the penalties for such breaches.

Some of the common contraventions above can lead to penalties such as

- Provision of loan to member or relative of member (60 penalty units, or \$10,800 each)
- Borrowings outside the exemptions e.g. limited recourse arrangements (60 penalty units, or \$10,800 each)
- failure to keep SMSF money separate from personal assets (20 penalty units, or \$3,600 each)

If your SMSF is not currently being administered by our experienced SMSF Team, talk to us today about how we can help you ensure you do not become one of the above statistics.

# RESPONSIBILITY

## Get into Spring!

### Spring Affair

Three of the Vale's best wineries are teaming up for the third year running for the Spring Affair Festival on the October long weekend. [Visit their website for more info.](#)

### AFL Grand Final Live in Botanic Park

On Saturday 1 Oct you can watch Ch7's live coverage on super screens in Botanic Park.

[Click here for more details.](#)

### Feast on Foot

Now that the weather is getting better, why not head out for a walking dumpling tour? It's the only one of it's kind in Adelaide!

Head to [Feast on Foot's website](#) to book a spot.

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## OzHarvest Great Food Rescue Race

In November last year the 360P Team raised funds for OzHarvest and participated in their Great Food Rescue Race.

The event, which was run for the first time last year, raised \$38,000, providing 76,000 meals to people in need in South Australia. After this great success, OzHarvest have announced that the race is on again! It's really easy to get involved and we strongly recommend it. Visit the [Great Food Rescue Race website](#) and help to make a difference to those in our community who are doing it tough.





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