

**From:** Grow | Marinis Group  
**Sent:** Monday, 1 May 2017 11:33 AM  
**To:** Grow | Marinis Group  
**Subject:** Super - it's alive and kicking!

Dear Friends,

If you read the financial pages you could be forgiven for thinking superannuation has been consigned to history's wastebasket by the federal government's recent changes – but that would be wrong.

Financial advisers just have to work a little harder to get the most for their clients under the new rules. And to be honest, the changes will not affect most of us, just those couples with more than \$3.2m in their combined pension funds. The worst case for pension accounts exceeding this balance is that they will need to roll the excess back to 'accumulation phase' and be charged a maximum of 15% tax on the earnings above \$3.2m (with franking credits and other offsets, however, most super funds can normally do a lot better than that)!

The new rules essentially limit each person to \$1.6m tax free in 'pension phase'. Those with funds in excess of \$1.6m in 'pension phase' WILL need to remove the excess by 1<sup>st</sup> July 2017 or suffer tax penalties!

With contribution splitting, this amount doubles to \$3.2m for couples. In addition, when we take into account historically, that the ASX has achieved on average, 7.5% p.a, the return on the family's \$3.2m could approximate a tax free income of \$240,000 pa – without eating into capital.

Consider too, the example of a single person over 60 at 1 July 2017 with \$2m in an Account Based Pension (ABP). Withdrawing \$400,000 (the excess over the \$1.6m cap) could achieve taxable income of \$30,000 pa (assuming a notional investment income of 7.5% pa on this now non-super investment of \$400,000).

The retained \$1.6 million ABP pension income remains tax exempt and the (non-super) investment income of \$30,000 is now the only taxable income.

As this level of personal taxable income is below the current single person SAPTO (Senior Australian Pensioner Tax Offset) threshold of \$32,279 pa, there is NO personal tax liability. Not a bad outcome post 1 July, 2017 on a total annual income of around \$150,000 (made up of tax exempt pension income plus non-super investment income) – with NIL TAX PAYABLE!

As a society, we have become used to super becoming more generous over the years. These initiatives wind back the clock to 2007, but the 'new' super conditions are still more generous than the old Reasonable Benefit Levels were at the time.

Going forward, the biggest issue facing most of my clients will be for those in Defined Benefit Funds, as the new rules will require them to rethink the structure of their superannuation benefits.

The government will, from 1 July 2017, value defined benefit pensions at 16 times the annual pension payment received – so, for an academic or a senior public servant who has been putting away 17% of annual salary for 30 years, and who had anticipated receiving a pension benefit of more than \$100,000 pa, there is now an unexpected problem to be addressed.

I have been and we will be speaking directly to any of my clients who are affected by these changes.

On a separate topic, you may be interested in my latest contribution to the Eureka Report, which is accessible via **this** link <https://www.investsmart.com.au/investment-news/its-time-to-grill-your-financial-advisor/139163>. It discusses what people should look for in a financial adviser.

As always, if there is any financial matter which I, or any of the team can help you with, please don't hesitate to call us on (08) 8130 5130.

Kind Regards,

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Financial Strategist  
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GROW @ Marinis



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## *It's time to grill your financial advisor*

Why interrogating your advisor can really pay off.

**Summary:** Strategies to implement and questions to ask so no one is playing with a poker face in financial planning situations.

**Key take-out:** Preparing a range of questions to ask your financial advisor is good practise. If they're not willing to answer them, you should choose one who will.

**Key beneficiaries:** General investors. **Category:** Investment Strategy

The relationship between a financial advisor and a client requires a high degree of transparency and trust.

Just as financial advisors are required to seek sufficient personal information to meet their fiduciary obligations when providing advice, I've always believed that clients should have the rights to see their advisor's own financial plan.

It's a long-term partnership, so there should be a significant range of disclosures available to both parties. It should not be a one-way information flow.

### Cut to the chase

What's your advisor doing with their own cash? Where have they chosen to invest their money? And what estate planning provisions do they have in place personally? As a potential client, you should be able to ask an advisor to 'open the books' in the same way that an advisor will ask you to disclose your personal financial situation.

Ask your advisor why they have chosen a particular strategy, and why you should or should not follow the same. If there is a disconnect, understand why.

If my advisor had not been particularly successful in building their own wealth, I would be very concerned. They do not need to be rich; but they should be able to demonstrate a clear commitment to long-term wealth accumulation. A get rich slow philosophy.

### What's in the bad books?

If your advisor will not charge a flat fee for service, I would be walking away. There is a belief that it takes much more work to manage \$1 million than it takes to manage

\$100,000. This need not be the case. The amount of paperwork, follow-up, and regulatory compliance are similar – it is just taking place in a different ballpark. In my opinion, you should not pay more than 1.5 per cent in total for all your investment, administration, and advisor fees and charges.

Every advisor has a different investment philosophy. If a 'stock picking' approach is advocated, you need to be sure you are comfortable with the degree of risk involved, and how this might impact you over the long term. If passive investing – or 'buying the market' – is recommended, ask for an explanation of the risks and benefits over the medium to long term.

As well, don't be embarrassed to ask your advisor about their own personal and business insurances. What protections do they have in place for themselves and their family?

It really is not too much to ask.

You can ask your advisor to provide details of their full business insurance arrangements, including cyber protection insurance. This ensures your own wealth will be protected if your financial services organisation falls victim to a criminal cyberattack. I would not recommend dealing with a financial advisor who cannot provide both a certificate of insurance and a cyber protection policy which demonstrates the firm has seriously thought about, and acted to, mitigate this growing modern-day threat.

### **The rule of three, and thumb**

Understand the strengths and weaknesses of your potential advisor. Request client testimonials – a list of three is not unreasonable – and ask if you are able to speak with these clients. Interview the referee as if you were interviewing a potential employee. If you are seeing the firm as a result of a recommendation, you should still feel free to ask to speak to others who have appointed them.

One strategy is to appoint an advisor who is around five years younger than you – which is not a bad principle if you know when that person plans to retire. Ask about their retirement plans. Remember, super is tax free from 60; so if your potential advisor is aged 59, they may harbour a plan to retire very soon. You may wish to know who will be left behind to help you if you intend to stay on until age 67. Are there competent younger people working with your advisor?

### **A mini 'inquisition'**

It seems like an 'inquisition', but I promise it will not take 700 years. It is a lot easier than you might think.

First step, my advice is to call and book an initial appointment. Tell the financial advisor that you have prepared a list of questions (you can use this article as a guide) and you would like to put these to them, via email, prior to the first meeting. If you have an existing relationship, ask to do this a couple of weeks prior to your next annual review. You will be able to get a sense of how appropriate your potential, or existing, advisor is for you, from the response you receive.

If they do not lay the right cards on your table, that play properly into your financial position, or if they will not 'open the books', it could be time to move on.



*Theo Marinis*