Grow @ Marinis Group

From: Grow | Marinis Group
Sent: Tuesday, 4 July 2017 9:38 AM
To: Grow | Marinis Group
Subject: Happy New Financial Year - Stop Being Fooled

Dear Friends,

Here are the headlines:

- **Don't be fooled – 1% for a superannuation investment management fee is still way too high.**
- **MFG's average client super fund fee (investment management fee) is around 0.45 - 0.65% pa (......apparently that's where the industry is expected to be in about ten years' time. MFG is ALREADY there!)**
- **Our clients pay super fund fees which are low, but not cheap – and for super funds which are as good as, if not better than most of their more expensive rivals.**
- **A number of government super fund fees (Super SA for example) have costs which on average are around the higher end of super/investment management fees paid by MFG clients – but their funds are not as flexible.**
- **The vast majority of Industry super fund members pay more in fees.**
- **MFG is committed to controlling costs, reducing taxes paid and, where appropriate, maximising Centrelink options.**
- **Being 'self-licensed' (as the holder of our own AFSL) means we can negotiate lower fees.**

Pssst, don't tell anyone, but the vast majority of Australians are being fooled into thinking they are getting a bargain paying just over 1% for their managed funds... when some financial planners are negotiating fees around half that!

I know this because my clients pay an average investment management fee of between 0.45 and 0.65 per cent per annum (depending on their investment portfolio).

But what does a miserly half-a-per cent mean to a long term investment, I hear you say?

On a super account balance of $500,000 held for 10 years, it could in fact make a difference of around $26,414 (based on a fee saving of $2,000 pa indexed at **a modest** 5% pa for 10 years). That's enough to buy a new car in retirement, or to pay for an exciting overseas holiday; or, if you reinvest it (as I probably would) it will deliver around an extra $1,000 per year to spend – for eternity.

The following commentary on the subject of fees makes interesting reading:

"Rice Warner acknowledged the superannuation system is "clearly" too expensive in some areas, as has been suggested by the Financial System Inquiry and the Productivity Commission.

However, despite the structural factors in Australia, fees have decreased from 1.26 per cent in 2006 to 1.03 per cent in 2016, said Rice Warner.

"We anticipate fee levels falling despite a likely continuing growth in member services."

"In 10 years, our largest fund will have $250 billion. With enhanced technology, could it operate for 45bps? .... Could that fund get down to 30bps ...?" asked Rice Warner."

(Source Investor Daily, 23 June 2017)

Now, please don't just shrug your shoulders and think 'it doesn't matter to me because I am in a government or industry super fund.' In many cases government and industry super funds charge fees which are significantly higher than those paid by our clients – and they don't offer the same functionality.

I should point out that these fee savings are achieved primarily via MFG's investment philosophy which is based on the use of low cost index funds or 'buying the market'. It is my view, after 30 years of investing, that this is the best way for super to grow (as does the world's richest man Warren Buffett, who writes that this is the way he would advise his family members to invest their inheritance from him).

It is my firm belief that trying to 'stock pick' is akin to gambling with your retirement savings; hence my mantra: 'our clients should get rich slowly – and stay rich'.

Buying the market' spreads the investment risk evenly – there will be some winners and some losers, but nevertheless, over the last 30 years the ASX has increased on average by just over nine per cent per annum. Click on the link here http://www.fidelity.com.au/fidelityP2/?LinkServID=B91D14A6-B125-E8DC-BB83AAD60C35BC5A.

The 'good news' is that the investment industry expects investment management fees to fall to around where Marinis Financial Group operates i.e. to 0.45%-0.65%.

The 'bad news' is that this is expected to take a decade.

It means that those paying the highest fees are essentially rewarding their funds manager with a free car or holiday for just doing their day-job .... I wouldn't!

Having a clear understanding of the role of input costs in the profit equation (perhaps one of the benefits of an economics background) is reflected in the MFG approach to the importance of fee reduction for our clients. **MFG's 'self-licensed' status, allows us to negotiate at a fund manager / investment platform level without constraints. (Incidentally we celebrate 9 years as an Australian Financial Services Licensee today).**

And know that I do 'walk the talk'. If at any time, any one of our clients would like to see my personal superannuation or insurance details, I am more than happy to present them. We take the same advice that we provide; we too have benefited from the MFG approach – just as our clients have.

At MFG, our clients can be assured that over the next decade, as the bulk of the industry tries to catch up with us, we will continue to work harder, faster, for longer – to do EVERYTHING possible to continue to innovate, keep costs and taxes down and (where appropriate) maximise Centrelink benefits for our clients.

Finally, to provide you some more insight into the kind of thinking we bring, **click on the link here** to read the **recent Herald Sun article** http://www.marinisgroup.com.au/assets/Media%20PDFs/2017_06_08_-_The_Herald_Sun_-_Investing_super_dills.pdf.

Click on the link here to read the **recent Eureka article quoting us** http://www.marinisgroup.com.au/assets/Media%20PDFs/2017_06_20_-_Eureka_Article_-_Cashing_in_on_insurance_bonds.pdf

Kind Regards,

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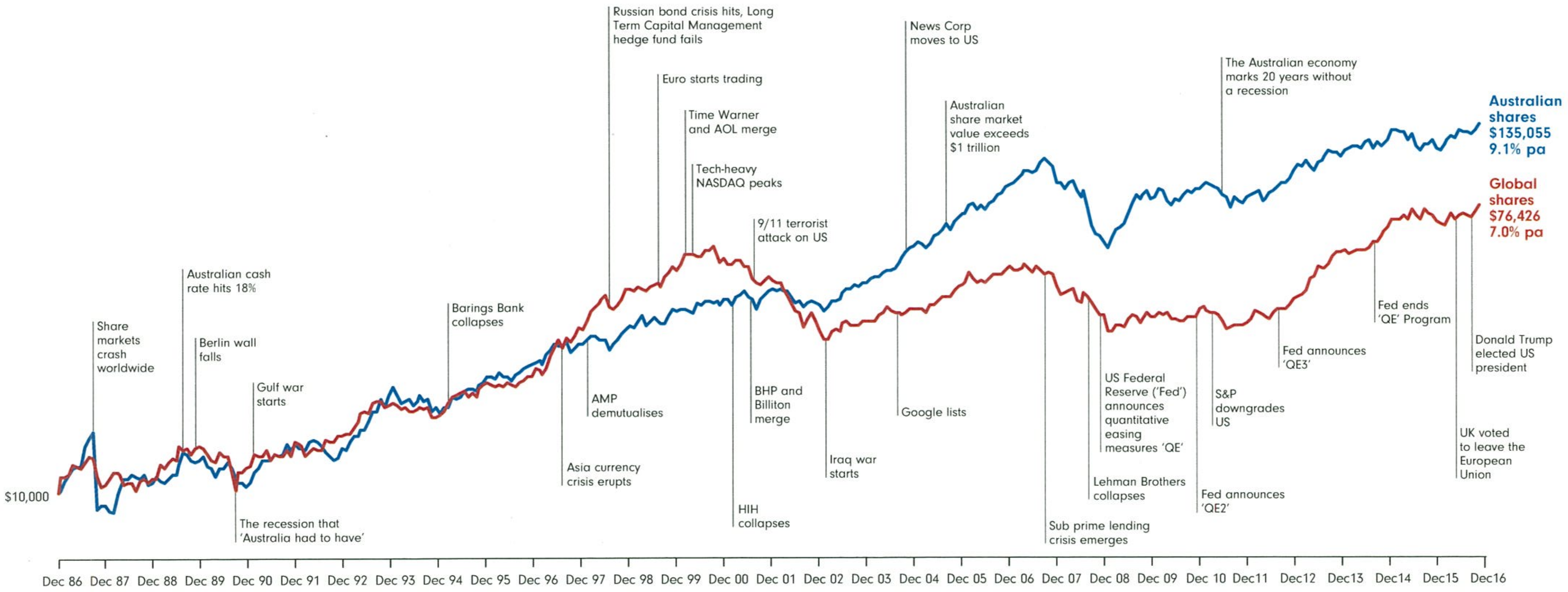
Fidelity INTERNATIONAL

30 years in Australian and global shares

December 2016

Australian and global shares

$10,000 growth over the past 30 years to 31 December 2016, logarithmic scale



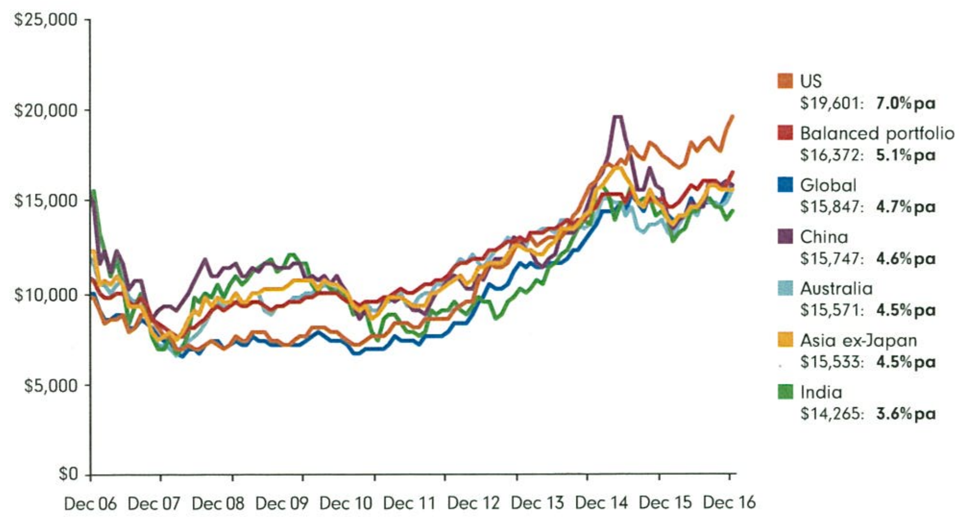
Source: Morningstar Direct. All returns shown are in AUD terms (assuming currency exposure is unhedged) and assumes dividends are reinvested. Returns are average annual returns over the periods shown. Indices used are: Australian shares: S&P/ASX 200 All Ordinaries TR, Global shares: MSCI World Index NR. In the Australian and global shares chart, a semi logarithmic scale has been used to show the proportionate importance of fluctuations over the period. The base of the semi logarithmic scale is 8. Index performance does not take account of management costs, operational and transactional costs or tax. Index performance does not reflect the performance of any individual portfolio of stocks. Please remember past performance is not a guide to the future. Investments in overseas markets can be affected by currency exchange and this may affect the value of your investment.

Selected share markets over the past 10 years

December 2016

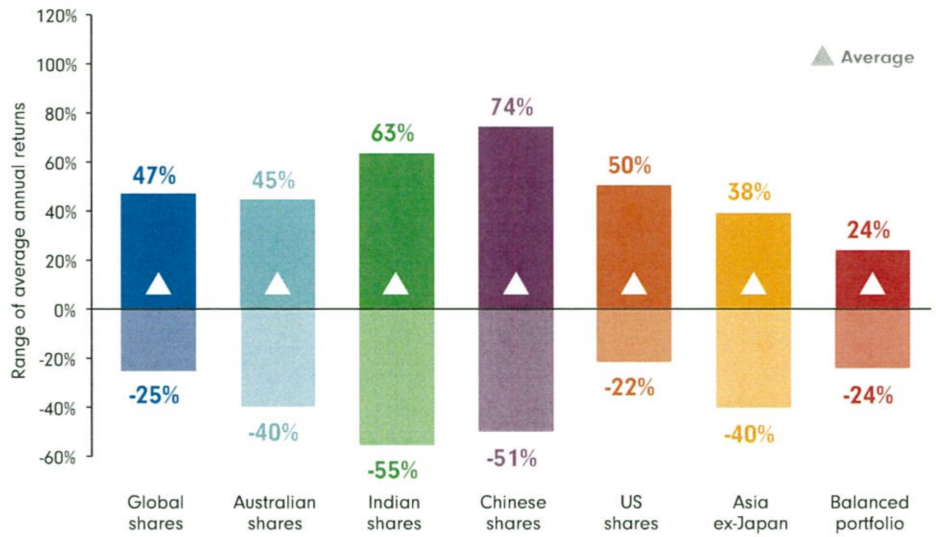
Regional share markets

$10,000 growth over the past 10 years to 31 December 2016



Range of one year returns

Over the past 10 years to 31 December 2016



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Source: Morningstar Direct. All returns shown are in AUD terms (assuming currency exposure is unhedged) and assumes dividends are reinvested. Returns are average annual returns over the periods shown. Indices used are: Australian shares: S&P/ASX 200 All Ordinaries TR, Global shares: MSCI World Index NR, Indian shares: MSCI India, Chinese shares: MSCI China, US shares: MSCI North America, Asia ex-Japan shares: MSCI Asia ex-Japan, Balanced portfolio: 70% growth assets (40% S&P/ASX 200 All Ordinaries TR, 22% MSCI World NR, 8% S&P/ASX 300 Property Index Trust), 30% income assets (20% UBS AU Composite All Maturities Index, 5% Barclays Capital Global Aggregate Index, 5% UBS Bank Bill All Maturities Index). Index performance does not take account of management costs, operational and transactional costs or tax. Index performance does not reflect the performance of any individual portfolio of stocks. Please remember past performance is not a guide to the future.

Investments in overseas markets can be affected by currency exchange and this may affect the value of your investment. Investments in small emerging markets can be more volatile than investments in developed markets.

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Investing super dills

Most Aussies giving away money

ANTHONY KEANE

MORE than nine in 10 Australians may be costing themselves thousands of dollars a year by failing to put extra money into superannuation.

A new study of more than a million super fund accounts has found that 92 per cent of savers have only the compulsory 9.5 per cent employer contributions paid in. Experts say this is not enough to assure a comfortable retirement.

Global investment group Vanguard's research shows that some free money incentives — such as $500 for cocontributions and $540 for spouse contributions — are used by only 1 per cent, or less, of super fund members.

"You wouldn't walk past $500 if it was in an envelope on the footpath," said Vanguard head of market strategy Robin Bowerman. "The inertia factor is pretty strong."

Vanguard's How Australia Saves 2017 report — in partnership with Sunsuper — found about 4 per cent of people used salary sacrifice last financial year, bumping up their average contribution from 9.5 per cent to 16 per cent.

Only 0.5 per cent made contributions to their spouse's super to potentially qualify for a $540 tax offset, and just 1 per cent took advantage of the government's co-contribution scheme for low- and middleincome earners, which deposits $500 if a member injects $1000 of their own money.

Financial strategist Theo Marinis said many people did not trust super because the rules kept changing.

"People use that as an excuse, but are giving away guaranteed money," he said.

"If someone said, 'Give me $1000 and I will give you $1500', you wouldn't hesitate. It's a good deal."

Mr Marinis said salary sacrifice could deliver an Australian earning $80,000 a year up to $3370 in annual net tax savings, and any extra contributions would benefit from years of compounding interest.

"If your fund gets a 7 per cent annual return, every 10 years your money doubles in value," he said.

"As human beings, we know what we should do, but we look for the easy way out. If we didn't have compulsory super, 90 per cent of us would have nothing when we retire. It's human nature — the more you earn, the more you spend. If your salary doubles, you are still spending 101 per cent of it."

Vanguard's report says member inertia and super fund default settings are key drivers of the super system. Mr Bowerman said almost 85 per cent of Australians had their money in their super fund default option.

Cashing in on insurance bonds

The new super changes may see insurance bonds make a comeback.

Summary: Ahead of super changing on July 1, and the Government cutting back retirement planning options, insurance bonds are set to regain popularity. An insurance bond accumulates earnings and capital growth and is most tax-effective if held for more than 10 years.

Key take-out: Insurance bonds are a tax-effective tool in the investment mix for some, especially high-income earners who have maxed out their super contributions.

We all know the saying, "everything old is new again" – and so it is with insurance bonds.

Technically termed 'insurance and friendly society bonds', most of us think of insurance bonds as relics from the 1980s. But with the Government cutting back retirement planning options, they are being brought out of the bottom drawer again. In particular, for those currently fortunate enough to be cashed up but still wanting to invest tax effectively (or provide an intergenerational wealth transfer).

An insurance bond (IB) is a tax-effective medium- to long-term investment which accumulates earnings and capital growth. Earnings are not included in the owner's tax return, unless the IB is cashed in early. After a decade, the earnings can be paid out tax free. Extra payments of up to 125 per cent of the previous year's contribution can be added and, if added correctly, these increments will not reset the '10-year cycle'. Switches within IB investment options are also usually permissible.

Some older-style IBs are capital guaranteed by the financial institution which offers them. Some providers also guarantee earnings when they are credited to the bond. Others are market-linked to less volatile investments, such as government bonds, or have a limited exposure to shares and are marketed as 'capital secure' or 'capital stable'.

'Managed growth' IBs are usually linked to stock markets, so their value will fluctuate. Past performance is, of course, no guarantee of future performance.

Fees may range from zero to 5 per cent on IBs, depending on the institution and the terms of the bond. Additional deposits and withdrawals may attract fees. There may be an annual management fee deducted before the return is declared.

A tax haven

When withdrawn in the first eight years, all earnings from the IB are taxable, less a 30 per cent tax offset. If withdrawn in the ninth year, two-thirds of the earnings are taxable, less a 30 per cent tax offset. In the tenth year, one-third of all earnings are taxable, less a 30 per cent tax offset.

After 10 years, there is no tax due and no tax offsets. And, on death, an IB is free of further tax to the estate/beneficiaries.

Some modern IBs allocate income and capital gains in the same way as a superannuation fund, or an account-based pension. But, unlike super, they can be accessed within the first 10 years, subject to the tax implications outlined above.

As Canberra's new 'anti-retiree' super regime comes to the fore, there are benefits to be considered in using an IB to protect your cash.

Post July 1, 2017, the new pension transfer balance cap (PTBC) and total super balance rules start to apply. The retirement strategies of many investors will need to change dramatically. The 'good old days' are over – where you could contribute excess cash into super each year, possibly until age 75.

In the new financial year, anyone with more than $1.6 million in superannuation will be ineligible to make additional non-concessional contributions. While the recent federal budget discusses allowing 'downsizers' to include $300,000 into their super, this is not yet law (in any case, there may also be a few negative consequences of this legislation, to do with Centrelink, if it were enacted).

Worth it for the high net worth

Academics, public servants and politicians – in fact, anyone expecting a defined benefit pension over $100,000 per annum – will be affected post-July 1, 2017. Most people don't yet realise they are caught in the net of the changes. A defined benefit pension is valued by Canberra at 16 times its annual payout; so expect to hear a lot of grief from those negatively impacted in the new financial year.

A significant benefit for the high net worth individual who has now officially 'maxed out' their non-concessional contributions prior to June 30 this year is that the IB is only taxed at a maximum of 30 per cent within the fund. This can be very advantageous for anyone paying tax at the top marginal rate of 47 per cent, with the added benefit of not having to pay a Medicare or NDIS levy.

There may be benefits for those on more modest incomes as well, given that the average Australian worker has between $37,000 – $87,000 in annual taxable income to place them in the 34.5 per cent personal marginal tax bracket.

A tool in estate planning

My clients are often reluctant to use IBs when I first float the idea. As most retirees, they are over 60 and, by then, they are well aware of their own mortality.

Which leads neatly into a further advantage afforded by IBs in estate planning. On the death of the owner, the proceeds can be paid out 100 per cent tax free. If you happen to live long enough to benefit, there could be a very good tax-free party at maturity 10 years from now.

And if you must withdraw funds early, the sliding taxation scale – less a 30 per cent tax credit for the tax paid by the IB on your earnings and growth – still makes withdrawals attractive prior to the 10-year mark.

Acquiring an IB may also be a useful strategy on diagnosis of a terminal, but not immediately acute, medical condition. Ensure, however, that you explore with your financial adviser as a matter of urgency all available strategies to maximise returns to your estate – including cash-out and re-contribution strategies – to remove the almost 20 per cent 'death tax' on unspent superannuation.

Bear in mind that IBs are not as tax-effective as superannuation. They are not for everyone. They are a strategy option for when super has been maxed out and all the bring-forwards have been enjoyed.

From a financial planning perspective, the Federal Government's clampdown on superannuation is not without a silver lining. It challenges us to get on with what our clients pay us for – that is, designing and implementing new strategies which will help them get rich slowly and stay rich.

Theo Marinis