

## How much do you really need?

TONY NEGLINE



The government has proclaimed that \$1.6 million is enough to provide sufficient income in retirement.

Are they right? This is a good question but before we can answer it, we need to consider some numbers.

One of the good policies in the 2006 Better Super regime introduced by the Howard/ Costello government was the removal of Reasonable Benefit Limits or RBLs. Back then we had two RBLs — a lump sum and pension RBLs.

Each July 1 these RBLs were indexed by movements in average weekly earnings. The 2006-07 lump sum RBL was about \$680,000 and the pension RBL was \$1.35m. If these had been indexed to the 2015-16 financial year then they would have had been worth about \$930,000 and \$1.87m.

To get access to the pension RBL you had to use at least 50 per cent of your super money to purchase a pension or annuity that had particular characteristics such as minimum indexation of pension payments and, most importantly, an inability to take any lump sum withdrawals from these pensions. I won’t explain how the system worked, but in practice, when most people wanted to access their pension RBL with some of these pension products they had to put somewhere between 60 and 80 per cent of their total superannuation moneys into these restrictive products. As an added incentive, these products also had some or all of the money placed into them exempt from Centrelink’s age pension asset test.

Pensions that allow lump sum withdrawals — sometimes called allocated pensions or account-based pensions — didn’t satisfy these pension RBL rules and have always been counted under Centrelink’s assets test. As a result, if more than 50 per cent of your super money was used to purchase the type of pension products available today, it would have been assessed against your lump sum RBL.

So on this basis one could argue that the Turnbull/ Morrison super ideas are more generous, because you can place

up to \$1.6m into an account-based pension and still access lump sums.

But the question remains: is this \$1.6m enough? Well, if you’re aged at least 65 then under the pension rules, you have to pay yourself a pension of at least \$80,000 over a full financial year.

Now if you’re concerned about losing capital and you want to invest your pension money into term deposits, then at present you’d be lucky to get a 3 per cent interest rate for a 12-month TD, or \$48,000 income.

Let’s suppose your pension costs you a very low 1 per cent per annum to run (a more realistic fee would be more than 2 per cent each year); then in total your pension has to pay an additional 3 per cent income on top of what it earned from the TD. Where does it get this from? Your only option is to take this money out of your pension’s account balance. After doing this you would have a pension balance of \$1.552m. This would earn less income next year and you would have to use more capital to make up the difference.

**A lot of people would conclude this additional \$14,000 income requires too much effort**

On the other hand, suppose you invested your money in the ASX 200. At the end of June this year, the yield for the previous 12 months had been 6.1 per cent if we assume at least 75 per cent of the dividend income has franking credits attached and your super fund pays no tax on your pension moneys. The problem with shares is that while the dividends paid are quite stable from year to year, the value of the assets is highly variable and it is this aspect which scares the daylight out of some people.

The maximum single age pension including pension and energy supplements is currently \$22,720 per annum, and the maximum couple age pension is \$34,250. As we already noted, you can earn \$48,000 from your \$1.6m invested in 12-month term deposits. A lot of people would conclude this additional \$14,000 income for a couple requires too much effort over a lifetime.

*Tony Negline is author of The Essential SMSF Guide 2016-17 published by Thomson Reuters.*

## The blockchain revolution

The technology behind bitcoin is changing the world

ELIZABETH REDMAN



A change is coming to financial services that its proponents compare to the introduction of the internet: its effects will be dramatic, but it’s hard to see all its potential yet.

The change is the introduction of blockchain, or distributed ledger, technology, which could have broad impacts across banking and trading for both individuals and institutions.

For private investors, the technology could allow for cheaper share trading and faster settlement. It could also help provide confidence to market participants in times of stress and allow more issuance of stock, particularly from smaller companies.

Blockchain technology is best known for its role underpinning digital currency bitcoin, but its uses are much wider.

The technology allows all participants in a network to agree that each transaction has taken place and to keep a record of all transactions, rather than leaving the record-keeping to a central authority.

Equity trading currently requires a settlement process involving post-trade clearing houses that exchange cash for shares and keep a register of ownership changes. These intermediaries can help give investors confidence that they will get their assets from the unknown party they are trading with.

But the current settlement process is less efficient than an exchange on the distributed ledger could be, according to Judd Bagley, director of communications at Nasdaq-listed Overstock.

The online retailer last year launched two bond offers using the distributed ledger and is working on issuing shares using the technology.

“When that process is moved to that venue (on the blockchain) the whole process takes about 10 minutes and costs about 80-90 per cent less than otherwise,” Mr Bagley told *The Australian*. “And that’s really because you’re taking so many intermediaries out of the process.”

The Nasdaq was also involved in a transaction where unlisted blockchain developer Chain.com



ISTOCK

The time it takes to settle a trade with blockchain could be slashed from days to a matter of minutes

**It could have broad impacts across banking and trading**

issued its own shares to a private investor using the distributed ledger.

Research into blockchain’s possibilities has been widespread across the financial services industry. Ron Quaranta, chairman of the Wall Street Blockchain Alliance, points to another blockchain pilot program focused on syndicated loans — loans between corporations that are securitised and traded in a “very inefficient” process that involved in the order of 25 million faxes last year.

“I’ve often called 2016 the pilot year and I would suspect as we enter 2017 we’ll start to see these pilots go into production,” says Quaranta, who is also the chief operating officer of Loyal, a blockchain start-up focused on loyalty and rewards points.

“I have the privilege of speaking to executives at banks and broker dealers. Almost all of them have some proof of concept in the works or have teams focused on

how will blockchain change the work of what they do in banking, payments or trading equities.”

A report by the World Economic Forum this month shows the depth of interest from the financial services community. At least 24 countries are currently investing in distributed ledger technology, with venture capital investments passing \$US1.4 billion (\$1.85bn) in the past three years. Some 80 per cent of banks are tipped to initiate distributed ledger projects by 2017.

The US is host to several start-ups in this space, but interest is global. “It’s likely you’ll see a quicker path to adoption in smaller economies,” says Canada-based Matthew Spoke, founder and chief executive at blockchain start-up Nuco. He compares this to communication technology: “A large part of the African continent skipped over the need for landline telephones and went straight to mobile.”

The ASX has also made well-documented effort in this area, working with New York-based Digital Asset Holdings on a prototype of a distributed ledger clearing and settlement system.

Before the technology could be widely adopted, regulators

would need approve its use. The industry is also working on increasing the volume of transactions per second that the technology can handle, which is not yet high enough for public equity markets.

Security is also front of mind. Although the distributed ledger offers a key advantage over centralised record-keeping — one participant can’t tamper with the record of transactions because every participant holds this record — there are still questions about how to prevent theft. High-profile cases such as the theft of about \$US72 million worth of bitcoins from a Hong Kong exchange this month raise fears about safety.

Although experts are reluctant to predict a date for its widespread adoption, the introduction of blockchain technology to settle equity trades, or to create and exchange new securities, would have clear implications for private investors. Given the potential to reduce costs, the technology’s advocates expect the fees for buying and selling stock to be dramatically reduced.

The time it takes to settle a trade could also be slashed from days to a matter of minutes. Not

only would faster settlement mean investors would have access to their cash more quickly after selling shares, it could also make a difference in times of market stress.

Overstock’s Bagley points out that during the GFC, institutions were hesitant to do business with Lehman Brothers and Bear Stearns because they worried those banks might not be solvent in three days when the trades settled. “It (blockchain technology) would make institutions at least more willing to engage in the kind of liquidity generating trades that are generally considered to be healthy for markets,” he said.

The technology could also allow for alternative securities trading venues where shares in pre-IPO companies could be traded. This could allow investors to take stakes in smaller or earlier stage companies, and to access more investment opportunities.

If and when blockchain technology becomes commonplace, it could reduce current inefficiencies in a way Bagley described in graphic terms at a New York conference this month:

“The simplest solution is to take Wall Street behind the barn and kill it with an axe.”

### FLOAT WATCH

## Smart money’s on IP rights

**QANTM Intellectual Property**

ASX code: QIP  
Shares on offer: 14.3 million  
Listing price: \$2.22  
Market capitalisation: \$295.1m  
Listing date: August 31

SIMON HERRMANN

QANTM Intellectual Property is an Australian legal services firm focused on intellectual property or IP rights.

It offers a suite of IP-related services associated with protection, creation, commercialisation and management of IP rights such as patents, trade marks, copyrights or trade secrets. Upon listing QANTM will own the two IP firms, David Collison Cave and FPA Patent Attorneys.

QANTM has been profitable for the past three financial years and achieved average revenue growth of 8 per cent annually.

Income streams are highly diversified, with the top 20 clients accounting for 20 per cent of revenue.

**The IPO offers an attractive mix of capital growth and income**

Synergies arising from combining DCC and FPA could drive margin growth and unlock value from the existing customer pipeline, while management forecasts a dividend distribution yielding 4.9 per cent for fiscal 2017.

However, the company faces integration risks as two large industry participants are being combined.

The historical financial reports are presented on a pro forma basis and there is no guarantee synergies will materialise.

QANTM is subject to increasing competition in the sector and there is a high degree of free float, which may impair early trade in its shares.

Davies Collison Cave and FPA Patent Attorneys have a longstanding track record of profitability and cash flow generation and continuation of this trend should enable management to reward shareholders via dividends.

Those around the deal are talking up the merits of QANTM, saying that the group has strong expansion opportunities in Asia and the opportunity to lift its earnings on the back of lower costs.

Comparable companies are XIP and IPH, formerly known as Spruson and Ferguson.

Overall, the IPO offers and attractive mix of capital growth and income.

*Simon Herrmann is an analyst at wise-owl.com.*

## Cashing in your stash: how superannuation benefits can be paid from an SMSF

MONICA RULE

In my last column I explained what a superannuation contribution is and when it is made to an SMSF. The timing of the contribution can affect a member’s ability to claim a tax deduction on their contribution, as well as determining whether they exceed their contributions caps. In this column I will explain how a super benefit can be paid from an SMSF.

A member can access their superannuation savings once they have met a condition of release

under the superannuation law. Their superannuation entitlement may be paid either as a lump sum benefit and/or a pension benefit, depending on the requirements of their SMSF’s Trust Deed.

A lump sum benefit is normally a one-time payment, whereas an income stream benefit, such as a pension, is a series of periodic payments (eg weekly, monthly, quarterly, half-yearly or annually) made over an identifiable period.

A lump sum superannuation benefit can be paid either in cash or in-specie but an income stream superannuation benefit can only

be paid in cash. This is because the definition of a “lump sum” under the superannuation law includes an asset. There is no equivalent definition for an income stream.

Under the income tax law, when an income stream is partially commuted, the member or a dependant beneficiary may make an election for the payment of the partial commutation not to be treated as a superannuation income stream benefit and instead be treated as a lump sum benefit. Therefore, if the election is made, the payment from the partial commutation of a pension is a super-

annuation lump sum for income tax purposes; and, the lump sum can be paid either in-specie or in cash and taxed as a lump sum superannuation benefit. If an election is not made then the payment is a super income stream benefit and cannot be paid in-specie.

A lump sum superannuation benefit can be paid in any number of instalments as long as the member has met a condition of release and is entitled to access their benefit from their SMSF. However, when it comes to payment of a lump sum death benefit to the deceased’s beneficiaries, the super-

annuation law requires that the death benefit be paid either as a single lump sum, or an interim lump sum and a final sum. This means a lump sum death benefit can only be paid in one or two instalments. An SMSF cannot “drip feed” death benefits to beneficiaries when the SMSF’s assets are sold and cash becomes available.

The term “payment” is not defined in the law. However, court cases have confirmed that a payment normally occurs where two parties both have a present liability or legal obligation to the other and by agreement they set off the

liabilities against each other using a book entry. On the other hand, where an SMSF has a present obligation to pay a member/beneficiary either a superannuation pension or a lump sum, there is no present obligation/liability to the SMSF on the part of the member/beneficiary and therefore no mutual obligation exists. As a result, a superannuation benefit cannot be made with a journal entry.

Where an SMSF’s deceased member’s super savings are to be paid to beneficiaries, under the super law it cannot be paid by way of journal entries in the SMSF’s

books. The death benefit must actually be paid to the beneficiaries by transfer of cash or ownership of assets. The payment must involve an SMSF making a cash or in-specie payment that reduces the deceased member’s benefit in the SMSF. If the benefit does not reduce the capital of the SMSF, it probably won’t be considered a benefit payment under the law.

*Monica Rule is an SMSF specialist and author of The Self Managed Super Handbook.*

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