Help through hard times

DIY SUPER

Monica Rule

When a self-managed super fund member is diagnosed with a terminal illness, often the first thing they think of is how their family are going to survive without them.

Choosing the best way to access their super can reduce tax and leave more money for loved ones.

A terminally ill member may be able to access their superannuation on one of four key grounds, namely severe financial hardship, compassionate, terminal medical or permanent incapacity. They can choose to wait until after their death and have the super paid out to relatives at discounted tax rates.

All of these options have their own conditions and treatments under various rules, including tax laws. It is important to understand the rules in case we are forced to make the kind of decisions none of us really wants to have to make.

Severe financial hardship

A member can access one payment of no more than $10,000 in each 12-month period if they are below their preservation age, can satisfy their SMSF trustee that they are unable to meet reasonable family living expenses and have received a Commonwealth income support payment for 26 weeks.

If the member has reached preservation age, can satisfy their SMSF trustee they are unable to meet reasonable family living expenses, received a Commonwealth income support payment for a cumulative period of 39 weeks, and is not gainfully employed on the date of the application, then there is no payment restriction.

A Commonwealth income support payment is a social security benefit or an income support supplement.

Compassionate grounds

The member may access money to pay for things such as medical treatment that is not readily accessible through the public health system.

They can also access money to make a mortgage payment to prevent a foreclosure, to pay for funeral expenses or to modify the family home to meet special needs. The application must be made to the Department of Human Services.

If the member can access their superannuation under financial hardship or compassionate grounds, the benefit can only be paid as a lump sum.

The benefit is tax free if the member is aged 60 or over. If the member is below their preservation age, tax is payable at a maximum of 20 per cent on the taxable component of the benefit.

If the member has reached their preservation age, the first $195,000 of the taxable component is tax free, and the balance is taxed at a maximum of 15 per cent.

> **CHOOSING THE BEST WAY TO ACCESS THEIR SUPER CAN REDUCE TAX AND LEAVE MORE MONEY FOR LOVED ONES.**

Terminal medical condition

A fund member must have two medical professionals, including one specialist in the area related to the illness, certify that the member's condition is likely to result in their death in the next 24 months.

The member can elect to receive the terminal illness benefit as a lump sum payment or as a pension.

A lump sum terminal illness benefit is paid tax free. If the member decides to receive the benefit as a pension, tax is payable at the member's marginal tax rate on the taxable component of the pension if the member is below preservation age.

If the member has reached their preservation age, they will receive a 15 per cent tax offset on the taxable component. If the member is aged 60 or above, the pension is tax free.

Permanent incapacity

A member can access their super benefit as a lump sum or pension if they have ceased gainful employment and are unlikely, because of physical or mental ill health, to ever engage in gainful employment for which they are reasonably qualified by education, training or experience.

If the member receives the benefit as a lump sum and they are below their preservation age, tax is payable on the taxed element of the lump sum at a maximum of 20 per cent.

The amount up to $195,000 is tax free and the balance is taxed at a maximum of 15 per cent if the member is at or above their preservation age. The whole benefit is tax free if the member is aged 60 or over.

The member can qualify for an increased tax-free amount if two legally qualified medical practitioners certify that the member is unlikely to ever be gainfully employed in a capacity for which they are reasonably qualified because of education, experience or training.

If the member receives the benefit as a pension, tax is payable at the member's marginal tax rate on the taxable component of the pension with a 15 per cent tax offset for members under the age of 60. If the member is 60 or above, the pension is tax free.

Death benefit

The fifth main option is for a member to not gain access to their superannuation before they die. In that case, a death benefit must be paid out to either their dependants or their legal personal representative on their death.

A lump sum death benefit paid to a dependant is tax free. If it is paid to a non-dependant, tax is payable at a maximum of 15 per cent on the taxed element and a maximum of 30 per cent on the untaxed element of the taxable component of the lump sum benefit.

A death benefit pension paid to a dependant is tax free if either the deceased member or the dependant is aged 60 or older.

If neither the deceased member or the dependant is aged 60, tax is payable at the marginal tax rate with a 15 per cent tax offset available on the taxable component.

Recognising the most tax-effective way to access superannuation, before you die can give you some comfort in knowing that your family will be taken care of after you are gone.

■ Monica Rule is an SMSF specialist and author of The Self Managed Super Handbook. www.monicarule.com.au

Ol' Cromwell may be headed back to favour

YIELDHUNTER

with ***Patrick Taylor***

Every so often a highly rated sector will be dethroned while at the same time an equally unloved group will march ahead to victory.

So it is with our pick this week, Cromwell Property Group. Here we are choosing to follow iron-sided price strength in revolt against profit-target pageantry.

Founded in Brisbane in 1970, Cromwell Group is a real estate investment trust and fund manager coming from our favoured sector of commercial real estate trusts with leaders like Dexus Property and the Investa Office Fund.

Investa is up 14.5 per cent in the nine months since featured it here, while paying a 4.4 per cent dividend. Cromwell is the last of that sector to move but the best investors and yield hunters will know patience is often repaid. Cromwell's dividend heaves in at 7.45 per cent (and is forecast passing 7.6 per cent in 2017) , leaving only a capital gain target of 1.25 per cent to meet our total return target.

The consensus valuation is below current pricing by around 9 per cent, however much of this pessimism is due to their forecast drop in earnings next year.

An important factor to note is that overall profit is expected to remain unaffected and stable through to 2018 — leaving us a high-yielding, price-stable company, operating within a sector showing incredible price growth.

The trading history of Cromwell is compelling and encompasses a blistering rally from 10¢ in 2003 to over $1.30 by 2007, after which the GFC took it back down to 40¢.

We have since seen a remarkable price recovery, resiliently working through many structural resistance milestones to stand before its all-time-high once again.

More recently the stock has been bedding down the 100 per cent gain from 2011 to 2013, following this it has tracked mostly horizontally, marked by sporadic upward bursts and incremental gains. It has a habit of making strong arching rallies against the tide of expectations and we think it could happen again.

With good signalling and building momentum, coinciding with price resistance barriers being broken, it would be easy to see this as more of a technical choice than a fundamental one.

And you would be mostly right, but even with earnings going lower in the short term their overall profit remains untouched and yield is set to continue expanding.

With recent price advances and a technical standing that is a cut above the rest we believe Cromwell could well be headed higher yet.

CROMWELL PROPERTY (CMW)

Classification: Diversified REIT
Current price: $1.105
Market capitalisation: $1.9b
Forecast EBIT growth: -2%
Gross yield: 7.45%
Consensus price target: $1.01
Covering analysts: 7
Premium at current price: 9%
Price target trend: Flat
Signal time frame: Long/Medium/Short
Trend bias: Up flat quarterly/monthly/daily

INDICATORS:
Short-term: Positive
Medium-term: Positive neutral
Long-term: Positive

RECOMMENDATION: BUY

Cromwell

SET UP NOTES:

- CMW is working its way out of a 3-year sideways consolidation following a 4-year multi-bagging rally, the price support during this period has been excellent and stable with bursts of strength.
- Despite the lack of love from analysts CMW has been swimming strongly upstream with good momentum behind it and attractive signalling.
- Resistance targets are 1.20 with 1.30 behind and very good support layered down at $1.05, $1.00 and 95¢.