KordaMentha

What does the New Financial Year Hold? An opportunity for reflection and renewal

30 June 2021

As we embark on a new Financial Year, I have reflected on what are the key issues high net worth individuals need to manage and consider.

I have divided my thoughts into non-technical and technical matters.

Non-Technical Matters

The matters that I believe are critical for you to focus on as you prepare for the 30 June 2021 tax and accounting compliance season are as follows:

1. Personal relationships are even more critical

I had a client pass away earlier this year. We received Probate and applied to the client's Bank to open an Estate bank account and transfer the deceased's client funds into that account. Weeks went by with no activity despite numerous calls and emails. It was only after I pleaded with a contact I had in the relevant Bank that within days the Estate account was opened and the Late client's funds were transferred, enabling us to administer the Estate.

Working from home has revolutionised communication.

Video conferencing is now second nature, meaning there are no excuses for people to keep in touch on a personal basis.

However, Financial Institutions (to reduce their costs) are eliminating that person-to-person contact.

As such, the relationship you have with your Investment Advisor, Tax Advisor and Insurance Broker are more important than ever. I have given up on trying to establish a relationship within each of the major banks. They do not want to have such a thing. The Private Banks have eliminated the role of the Personal Banker and banks are now closing branches, meaning they do not even want you to interact with a member of their staff on a walk-in basis.

Nurture those relationships!

2. Red Tape is getting worse

Recently we sold the Jackson family holiday home which was in the name of my mother. My Mum suffers from Dementia and now lives in aged care accommodation. She has no documentation with her photo on it such as a Driver's Licence or Passport. However, the sale of the property required the verification of identity.

To achieve this without photo identification I had to organise a zoom video call with my Mum and the lawyer to verify who my mother was. I could have produced any old person from the aged care facility and the lawyer would not have known!

Ironically, upon the completion of the documentation the lawyer then addressed the paperwork to my mother's residential address prior to her living in the nursing home, where she has not lived for over 5 years!

Lesson to be learned?

Do whatever you can to reduce the future amount of Red Tape you need to deal with.

3. Government will not support self-funded retirees

Governments at all levels and political persuasions have shown their true management capability during this pandemic.

From vaccine distribution to quarantine facilities and contact tracing, they have illustrated that they cannot be relied upon, and we need to fend for ourselves. The Royal Commission into Aged Care illustrated the deplorable state of Government support for our elderly. Funding the repayment of the COVID-19 Relief created debt which will certainly be shouldered by high income earners and those self-funded retirees. The Victorian State Government has already increased taxes associated with those holding properties. This will be the taste of many tax increases to come.

What does this mean?

You need to ensure that you do not rely on the Government to support you financially.

4. Transitioning the management of your personal finances

As you age, your ability and interest to keep abreast of issues associated with your personal finance strategy becomes more difficult. As such you need to have a personal financial management transition plan. The obvious person to manage the family's personal finances (if you cannot) is your spouse (if you have one).

However, are they interested and capable?

What about one of your children?

If neither are applicable or appropriate in your personal circumstances, have you identified a trusted independent advisor to manage these matters?

5. If you are not proactive in managing your personal finances no-one else will be

the professional services sector seems to be struggling with the concept of accountability these days, with people happy to hide behind emails and disclaimers.

Accordingly, you must:

1. have your own documented financial strategy;
2. review it regularly, and
3. proactively question your advisors as to its applicability and the need for amendment, reflecting any changes in Government regulation or your own financial situation.

What does all this mean?

When reflecting on these matters, the key takes outs and action points I identify for you are as follows:

i. Make sure you have your key documents together in a secure place.

I developed a system via KordaMentha's share point documentation management software to electronically file copies of key client documents. I locate the originals in one central location either with the client or their Legal Advisor. If you do not have this original documentation when the time comes, refer red tape above!

ii. Keep track of your key information

Again, key documentation such as insurance renewal notices, or the cost base of your capital assets should be filed electronically and reviewed regularly.

iii. Get ahead of the curve

Make sure you have identified a successor to manage your personal finances. Identify your longer-term accommodation plans. This might involve downsizing and/or ensuring that you have in-home help.

Organise Plan B whilst you have the mental capacity to do so.

iv. Nurture those Key Financial Relationships

Advisory Firm Advisor Ratings annually surveys and reports on the Australian financial advice landscape.

Its 2020 report was recently released, identifying some interesting observations:

1. The pandemic has increased the demand for financial advice as it has amplified the value of such advice for consumers. Australians have taken more notice of their financial safety nets due to the Coronavirus.
2. Government regulations introduced post the Hayne Royal Commission has had the following impact:
   a. It has increased operating costs for Advisors
   b. It has reduced the number of Advisors in the marketplace. There has been a 26% decrease in advisor ranks over the last two years, and
   c. It has created a tighter talent pool for the front and back-office expertise.

   All these factors have contributed to a sharp rise in the cost of providing advice and advisors rationalising their client base.
3. Australia has entered the greatest transfer of wealth this country has ever seen. Over $3.9 trillion will be transferred over the next 20 years from baby boomers to Generation X and Y family members. There are currently more 65-year-olds in Australia than one-year olds!

   Baby boomers now represent 25% of the Australian population but over 55% of Australia's wealth.

These observations highlight again the need for focus on your key advisor relationships.

v. Ensure you have credentialled your key financial relationships with your personal financial management successor

When you no longer can personally manage your finances, you need to ensure that your Personal Financial Management successor understands:

1. who your key advisors are, and
2. the process to smoothly transition into a management role on your behalf.

This will enable them to work seamlessly with the Advisors on your behalf.

vi Regularly review your financial strategy

Your situation may change or regulations surrounding personal financial matters are updated. If you have a written personal financial management strategy, pull it out and review it as part of your 30 June 2021 tax and accounting compliance process.

If you do not have a written strategy, maybe it is time for you to get one…

Technical Matters

Superannuation Changes

Increase in the number of members possible for Self-Managed Superannuation Funds

The Federal Government recently legislated that a Self-Managed Superannuation Fund ('SMSF') can now have up to six members. Previously the limit was four.

The obvious question is whether you should be adding children to your Fund as additional members?

I have mixed feelings on this.

Adding members means the new members must also be Co-Directors of your SMSF Trustee Company, or Co-Trustees of the Fund in their own right. This shares control with the new members and requires them to be involved in investment decisions, withdrawal and contribution matters and having a complete understanding of the financial position of the SMSF.

Conversely it could be an effective opportunity for you to transition management of the Fund by having one or more of your children join to help with the administration and management decisions. In addition, you could use it as a means of transitioning wealth by making non-concessional contributions on behalf of your children to assist them getting their member's balance up to the "sweet spot" of $1.7 million. The money would be preserved in the Fund until aged 65 but could assist in their future retirement plans.

This decision is not one to rush into and it needs to be considered by reviewing your own circumstances.

As a reminder it is possible for a specific Superannuation Fund Financial Power of Attorney to step into your shoes as an SMSF Trustee Company Director if you lose capacity. This does not have to be a family member.

Changes to Contribution and Withdrawal Rules

The following changes to superannuation contribution and withdrawal rules have been recently enacted:

1. The tax-deductible superannuation contribution limit increases from 1 July 2021 to $27,500 per person per annum.
2. The non-concessional superannuation contribution increases to $110,000 per annum, or $330,000 every three years, using the *bring-forward* rule. The *bring-forward* rule and the ability to make non concessional contributions only applies if you have less than $1.7 million in accrued superannuation benefits.
3. Those persons aged 65 and 66 are now eligible where they have a total superannuation balance under $1.7 million to take advantage of the $330,000 *bring-forward* rule.

Change in Pension Rules

Minimum pension requirements from 1 July 2021 will continue to be 50% of the standard minimum withdrawal for the 30 June 2022 year. That is the percentage of your Pension account at 30 June 2021.

The minimum pension withdrawal therefore for the forthcoming financial year is as follows:

Minimum Pension Withdrawal – 30 June 2022

Age	Minimum % withdrawal
Under 65	2.00%
65–74	2.50%
75–79	3.00%
80–84	7.50%
85–89	4.50%
90–94	5.50%
95 or more	7.00%

Private Health Insurance Changes

The announcement in the 2020 Federal Budget in relation to changing the age for dependants has now been enacted in legislation. This means that dependants aged 24 to 31 years of age, such as your children who are still living at home and studying, can remain on your Private Health Insurance.

Please follow-up your Private Health Insurer if this is your situation.

Changes to Public Superannuation Fund Reporting Obligations

Single Default Public Offer Fund

Two major changes have been legislated with respect to the management of Public Offer Superannuation Funds. These changes DO NOT apply to SMSF's however are worthy for your review in the event you have money in a Public Offer Fund or have family members who do.

Firstly, where an employee is starting work with a new employer after 1 July 2021, has an existing Superannuation Fund and does not nominate a specific fund to receive the employer superannuation contributions, the employer is required to make contributions on behalf of that employee into the employee's existing Fund no longer the Employer's default Fund. This Fund will be known as the Employee's *"Stapled Fund"*.

This measure is designed to limit the creation of multiple superannuation accounts for employees in turn reducing administration and compliance costs by stapling Funds to the employee, irrespective of whether they change employment.

Employers will be able to access employee's superannuation account details (i.e., their Stapled Fund) from a government run central data base.

For those with multiple Public Superannuation Funds (or with children in such positions) this is an opportunity to consolidate those multiple Funds into the one Fund ensuring that in the future, multiple Funds are not created if one's employment situation changes.

Addressing Underperformance in superannuation

The second change requires the Australian Prudential Reporting Agency ("APRA") to conduct from the 30 June 2022 Financial Year, an annual performance test for Public Offer Superannuation products.

This is designed to address the problem of persistently under-performing Superannuation Funds. Benchmark performance criteria will be established, and test results will be published on an APRA website. Government regulations will be enacted, allowing for different performance requirements for different products and provide APRA with flexibility in applying various tests.

The annual performance test is intended to assess long-term investment performance of a Fund product. If a Fund fails the performance test, Fund members must be notified. If a Fund fails an annual performance test in two consecutive years, it is prohibited from accepting new members into that specific product.

The impact of this measure will provide greater transparency of Fund performance with Public Offer Funds investment performance and fee details readily available for comparison on the Government's *Your Super* website.

Members will be empowered to review their own Funds performance and select a Fund that readily meets their needs.

This is going to provide further concentration of Public Offer Superannuation Funds, weeding out smaller under-performing Funds.

Please contact me if you would like assistance with any of the matters raised or your financial management strategy generally.

Happy New Year!!

Anthony Jackson

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