BUSINESS

Each week, financial adviser and international bestselling author Noel Whittaker answers your questions. asknoel@fairfaxmedia.com.au

Ask Noel

Noel Whittaker

MY wife and I have a self-managed super fund. When one of us dies, you have advocated the survivor remove their own balance, as well the now inherited funds from the fund to avoid the 17 per cent "death tax". Can the funds be transferred out of the fund as shares?

My recommendation to consider exiting the fund was if death was imminent and a large death tax would be payable because the funds were being left to a non-dependent. This is really a matter for the family.

But assets can be transferred in-specie – just make sure you keep some cash in the fund's bank account to smooth out any fluctuations in the share price on the day of transfer. Also, be aware that this tax applies only to the taxable component of the fund.

My husband and I are self-funded retirees. We are 69 and 67 years respectively. We each have more than $1.6 million in super. My husband has Parkinson's disease and will clearly need home care in the next couple of years. Can you please let me know how we stand in relation to the home care packages. Is my husband eligible to receive any help?

Rachel Lane, of Age Care Gurus, explains that to be eligible to receive a home care package your husband will need to have an assessment of his care needs – this is usually done in the home so that the living environment can be considered.

This assessment, carried out by the Aged Care Assessment Team (known as ACAT) will designate a level of home care package your husband is eligible to receive.

The cost of the package has two components, the basic daily fee, currently $9.97 per day and the income tested care fee. The income-tested care fee is calculated by Centrelink using the same income test that it applies for the pension. The income-tested care fee is calculated at 50¢ per dollar of income above $20,025 a year (each) and cannot exceed the value of the package or the annual cap of $10,416 a year.

Suppose your combined income was $60,000 a year. Then your husband's share would be $30,000. The amount above the threshold would be $9975 a year, so at 50¢ per dollar the income tested care fee would be $13.66 a day. Consequently the total cost would be $23.63 a day.

I am 66, work 38 hours a week and intend to keep working for the next couple of years. I note an article by you on superannuation changes from July 1, 2017 that stated to be eligible to claim post-tax super contributions as a tax deduction I would have to be under 65. I work 38 hours a week, therefore passing the work test. I presume any tax contribution I make to my super account will tax deductible. Correct?

Yes, provided you do not exceed the caps.

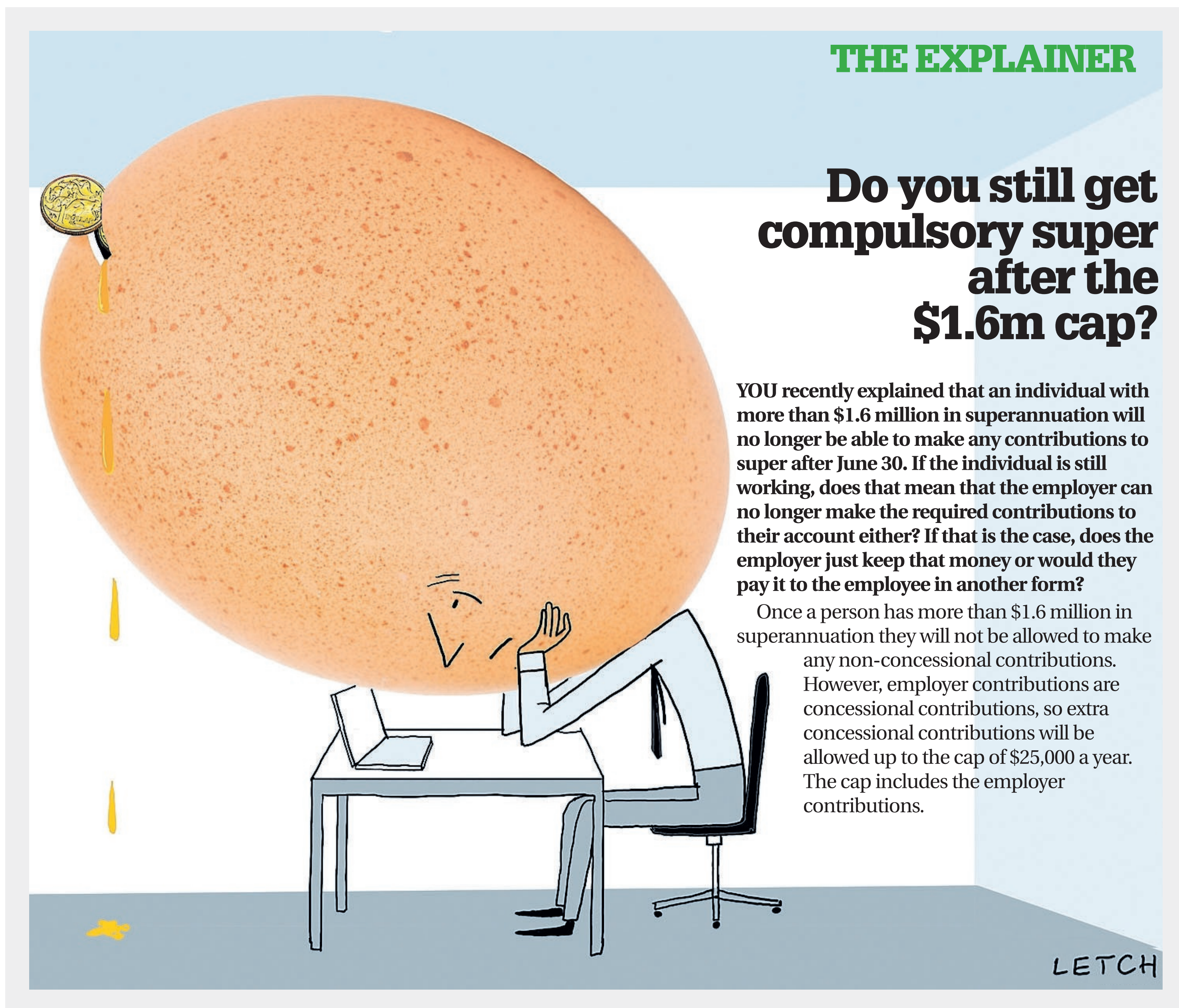
Some years ago my wife and I gave our son $116,000 to help him pay his partner for her half of a property due to them separating. Originally we gave it to him as a loan after speaking to a Centrelink financial adviser. A couple of years later I got to thinking if we converted it to a gift it would reduce by the said $10,000 a year and disappear after five years. I had also hoped that because some of the money was mine and some my wife's that we would get $10,000 deduction each a year. Centrelink has said this is not correct and allowed us only one $10,000 deduction in total for the life of the gift.

Where part of a loan is forgiven in stages, deprivation will not be assessed for amounts up to $10,000 a year and $30,000 over five years.

However, the advice is correct because if the whole loan is forgiven in a single transaction, all of it except $10,000 will be assessed as deprivation with no further reduction in the amount maintained for the next five years.

The $10,000 annual limit is not per person – it is $10,000 for a couple as well as a single.

Noel Whittaker is the author of *Making Money Made Simple* and numerous other books on personal finance.



THE EXPLAINER

Do you still get compulsory super after the $1.6m cap?

YOU recently explained that an individual with more than $1.6 million in superannuation will no longer be able to make any contributions to super after June 30. If the individual is still working, does that mean that the employer can no longer make the required contributions to their account either? If that is the case, does the employer just keep that money or would they pay it to the employee in another form?

Once a person has more than $1.6 million in superannuation they will not be allowed to make any non-concessional contributions. However, employer contributions are concessional contributions, so extra concessional contributions will be allowed up to the cap of $25,000 a year. The cap includes the employer contributions.

Investment that could be better than index funds

Super & Funds

John Collett

You've probably come across the term "index tracking" – I've written about it extensively in this column.

At its simplest, it's buying the returns of the market cheaply. The idea has been around for a very long time, but it's the advent of exchange traded funds (ETFs) that has made index investing popular.

ETFs track the returns of all sorts of markets and are listed on the Australian sharemarket with units in them bought and sold just like shares. And they are cheap, with management fees a fraction of a per cent.

However, there is a danger that anyone who buys an ETF that tracks the Australian sharemarket, for example, ends up investing in the 10 or so largest stocks by market capitalisation – the stocks that dominate our market. The Australian sharemarket is top-heavy by international standards; a few large stocks at the top with a long tail of minnow stocks.

Investing in an ETF tracking the largest 200-listed Australian-listed companies means investing in the big banks and the big miners – hardly a diversified investment strategy. But there is an idea called core plus satellite – where there's a core of low-cost index trackers with satellites added – that may give investors the best solution of all.

The satellites could be those active managers who have a good chance of more than earning their fees as study after study shows that most don't earn their fees. They could be shares themselves – growth shares for those who want share price growth, or income stocks for those who need income.

I asked Tim Murphy, director of manager research at investment researcher Morningstar, how the strategy could work in practice. He says the actual splits between core and satellite will depend on the asset class and the growth versus defensive split based on investors' personal circumstances, which is why financial advice is recommended.

Murphy says, in terms of the satellites, funds that invest in smaller Australian companies have a better track record than other types of share funds in adding value after fees. Most trustees of self-managed super funds prefer to use direct investments, and especially listed investments rather than unlisted managed funds.

Of the Australian shares component, there could be a core of, say, 70 per cent and satellites worth 30 per cent, Murphy says.

Instead of ETFs, the core Australian shares exposure could be one of the big listed investment companies (LICs), such as Australian Foundation Investment Company (AFIC) or Argo Investments.

These big LICs pay fairly steady dividends. And while they are active managers, these older LICs are managed conservatively with costs that are comparable to ETFs.

Sometimes LIC share prices can get out of whack with the value of the underlying portfolio. That means that the share price can move above or below the value of the portfolio holdings and so care has to be taken when buying and selling shares in them.

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