# BUSINESS



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

## Ask Noel

Noel Whittaker

**I am 60 and not working (unemployed). My husband, 65, is retired and receives the full pension. If I start a transition retirement pension (TTR) now from my super account, will the money I receive affect my husband's pension payment?**

If you were to start an income stream I suggest a normal account-based pension, not a TTR. The reason is that after June 30 the TTR fund would pay tax at 15 per cent whereas your account-based pension fund would be tax-free. However, your superannuation is sheltered from Centrelink only when it is in accumulation phase so starting an income stream could certainly affect your husband's pension. Your best option would be to make lump sum withdrawals from your super as needed.

**My wife and I are self-funded retirees. We own our home and an investment property which has been rented out for the last 20 years since purchase. In the near future, we intend to move into the investment property after renovation to make it our principal residence. If we bequeath both our pre-1983 present home and the new residence to our non-dependent children on our demise, will they have to pay capital gains tax (CGT) on selling them? If CGT is applicable is there a CGT-free period for them to sell these properties? Is there a qualifying period for us to live in the new residence after which the property can be sold CGT-free by us?**

Julia Hartman of Bantacs explains that if your heirs sell both properties within two years of your date of death no CGT will be payable. If they take longer than two years CGT will only be payable on the difference between the selling price and the cost base. The cost base for both properties is the market value at your date of death, plus selling costs and anything else associated with the property, since your death, that they have not claimed a tax deduction for.

But this simple answer assumes both you and your wife die on the same day. Now, assuming that your wife outlives you, she will inherit half of the pre-1985 property from you with a cost base of the market value at the date of your death. When your children inherit that property from your wife half of it will not be pre-1985 so there may be some CGT to pay. There is no period of time that you can live in your new home in order to be able to sell it CGT-free in your life time. It will simply be a pro rata calculation going right back to when you originally purchased it.

**I read your articles with great interest. However, I am often left wondering what assumptions underpin your projections. In particular, do you envisage spending down all capital over retirement or leaving it intact?**

How much anybody needs for retirement is extremely difficult to work out because it depends on such factors as the state of their health, how much is spent on dining out and travelling, how long they live, and how often the kids put their hand out for help. To make it more complicated, the age pension increases as the assets run down. I recommend a targeted capital sum of 14 times your expected expenditure but this is a very rough guide. This is why you should be guided by your adviser, and at least every year have a meeting to see if you need to revise your strategies.

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

## Will we lose our eligibility for health care card?

**THE Commonwealth Seniors Health Care Card (CSHC) is of great value to us self-funded retirees. We have more than $1.6 million each in superannuation and are concerned that we will lose the grandfathering provisions when we are required to adjust our arrangements on June 30. Can you throw any light on this matter?**

### The Explainer

A Treasury spokesperson assures me that existing CSHC holders with current retirement income balances in an account based pension of more than $1.6 million should not lose their grandfathered eligibility for the CSHC.

Eligibility for the CSHC is retained as long as the grandfathered product is retained. However, if an individual fully commuted the grandfathered income stream (thereby ceasing the product), eligibility for the CHSC may be lost.

This is a matter of some complexity and anybody who feels they may be affected should seek expert advice.

## Smaller DIY super funds not viable, ISA analysts say

### Super & Funds

John Collett

SELF-MANAGED super funds with assets of less than $2 million "are not viable retirement savings vehicles", says Stephen Anthony, the chief economist at Industry Super Australia (ISA).

In an analysis of ATO figures on DIY super funds and APRA figures by Anthony and colleague financial analyst Gary Lu, over the seven years to mid-2015, the latest available, the typical industry fund produced an average annual return of 5.9 per cent.

The typical retail fund, those run by the banks and insurers, returned 4.72 per cent.

DIY funds with between $100,000 and $200,000 had a typical average annual return of minus 1.71 per cent. DIY funds with less than $100,000 were even worse.

The ATO figures show that over seven years (data is not available for 10 years) only those DIY funds with assets of more than $2 million outperformed the industry funds' 5.9 per cent with an average annual return of 6.29 per cent.

However, all DIY fund sizes, including those with more than $2 million, underperformed industry funds over three and five years.

Anthony says if you cannot achieve scale and get a properly diversified DIY super fund you are likely to be in an "adverse investment return position". Another reason for the poor performance of small DIY funds is that the fixed costs are high, relative to the amount of money in the fund, he says.

The smaller DIY funds are more likely to have one business property or investment property or most of their money in low-returning cash investments, Anthony says.

He takes issue with research by Rainmaker reported in this column a fortnight ago that showed over 10 years there's hardly any difference between the performance of not-for-profit funds, such as industry funds, and DIY funds. The Rainmaker research gave the typical average annual average return of about 5 per cent, for both funds.

However, the Tax Office performances data aggregated by Anthony and Lu shows there is really no typical DIY fund return.

With industry funds, there is a tight dispersion of returns around the typical returns as the asset allocations of their balanced investment option, where most members have their super, are broadly similar.

Those in the same investment option will receive identical returns regardless of account size. On the other hand, the huge variation in DIY fund sizes results in a huge variation of performances. About 20 per cent of DIY funds have assets under $200,000, 24 per cent between $200,000 and $500,000, and 24 per cent between $500,000 and $1 million.

Anthony says the growth in DIY funds reflects "selling" by advisers and accountants, which is increasingly targeted at a younger population where there are concerns over the level and quality of information given.