SMARTLIFE

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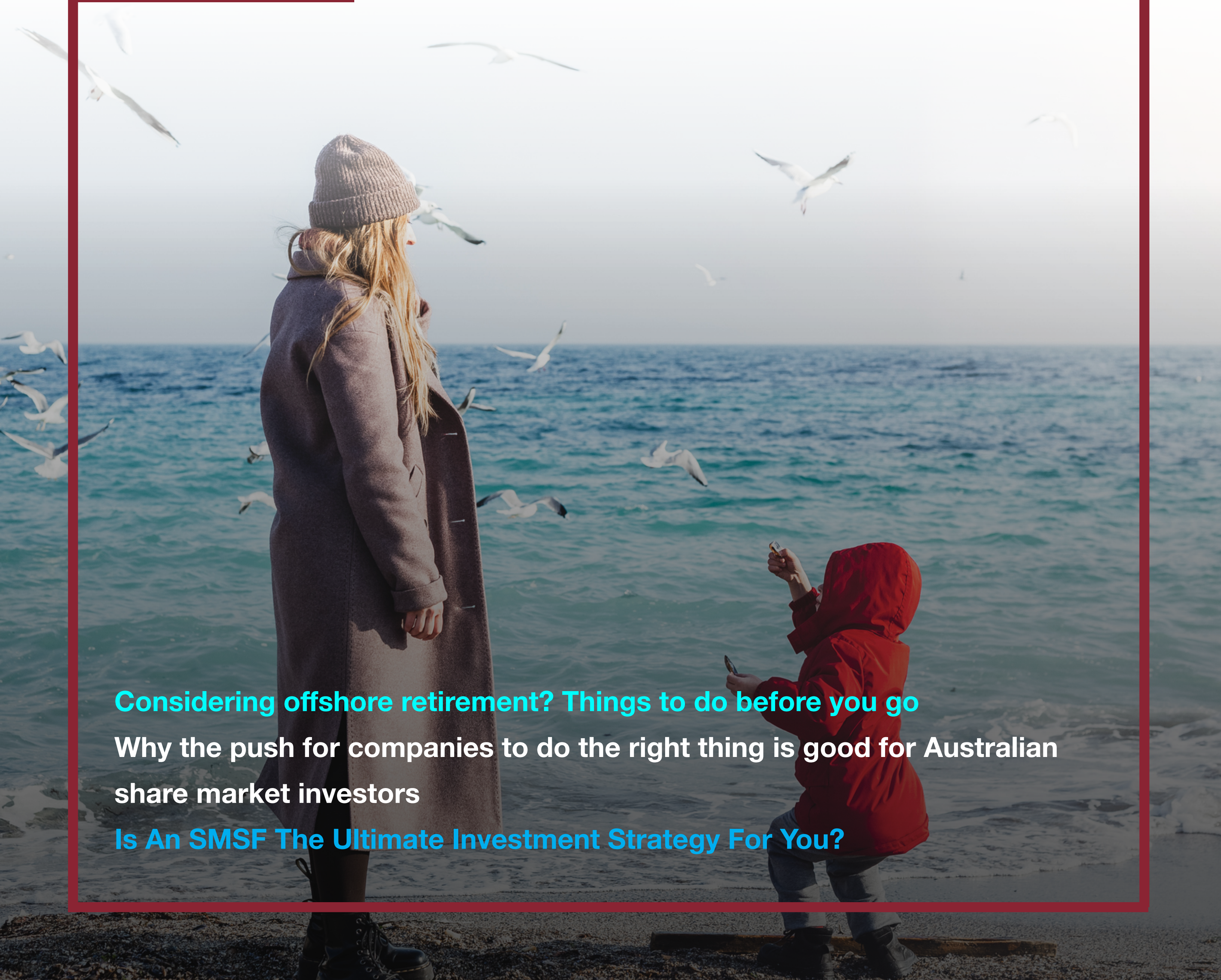
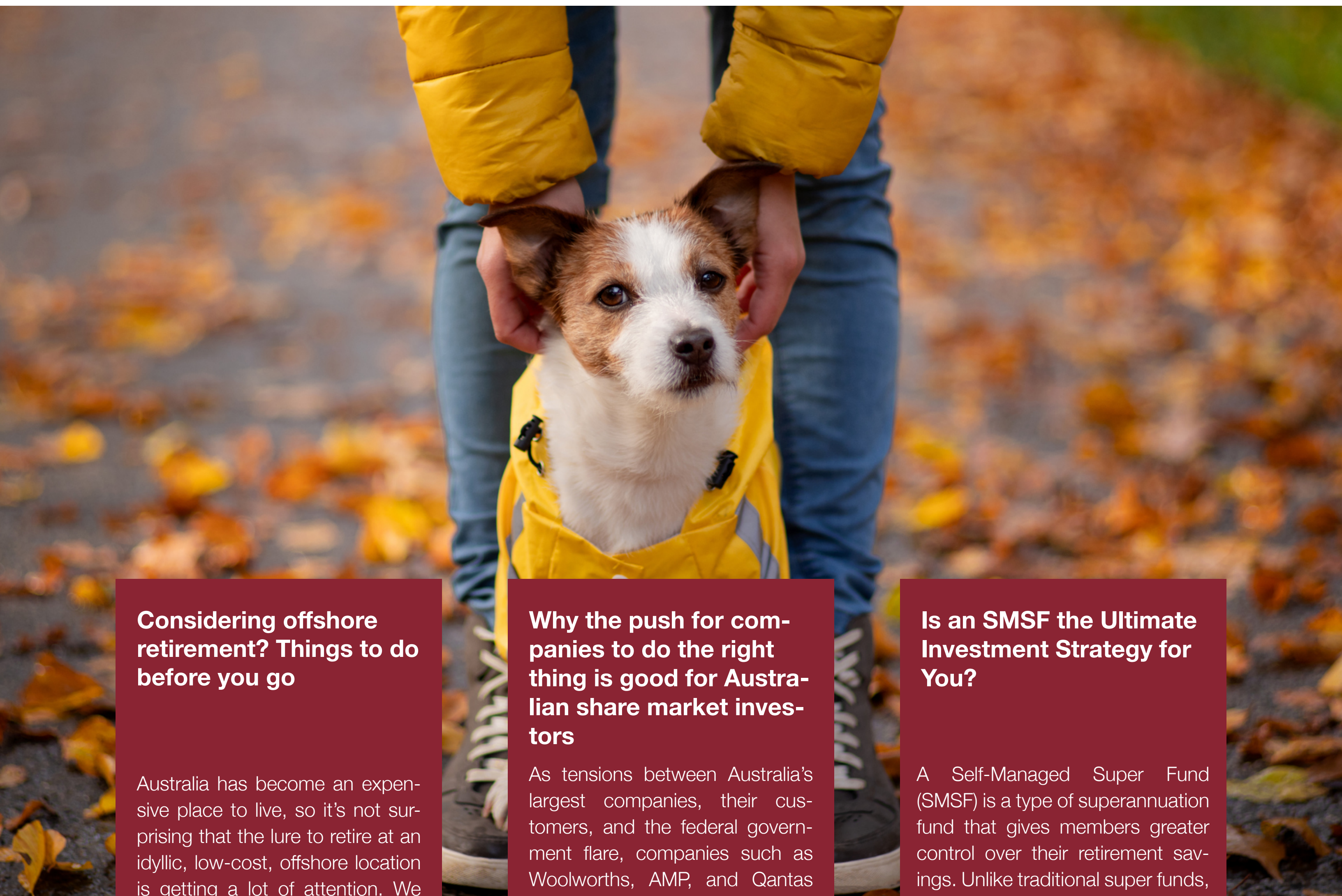


Considering offshore retirement? Things to do before you go

Why the push for companies to do the right thing is good for Australian share market investors

Is An SMSF The Ultimate Investment Strategy For You?

Welcome to the Winter 2024 edition of SMART Life.



Considering offshore retirement? Things to do before you go

Australia has become an expensive place to live, so it's not surprising that the lure to retire at an idyllic, low-cost, offshore location is getting a lot of attention. We discuss the pros and cons.

Why the push for companies to do the right thing is good for Australian share market investors

As tensions between Australia's largest companies, their customers, and the federal government flare, companies such as Woolworths, AMP, and Qantas are placing a higher priority on measuring their community reputation.

Is an SMSF the Ultimate Investment Strategy for You?

A Self-Managed Super Fund (SMSF) is a type of superannuation fund that gives members greater control over their retirement savings. Unlike traditional super funds, where investment decisions are made by professional fund managers, members of an SMSF act as trustees and are responsible for managing the fund's investments and compliance obligations.

Considering an offshore retirement? Four things to do before you go.

Australia has become an expensive place to live, so it's not surprising that the lure to retire at an idyllic, low-cost, offshore location is getting a lot of attention. We discuss the pros and cons.

If you've holidayed overseas recently, you'll know how much further your Australian dollar can go – particularly in Asia. An income that would be considered frugal in Australia is likely to fund a very comfortable lifestyle in some overseas locations.

This is because food, transport, housing and domestic services are often a fraction of what they'd cost back home. Adding to the lustre, these affordable lifestyles can include beach-side living and a tropical climate.

However, before making any firm plans to turn your holiday into a permanent home, it's important to consider all the implications.

1. First do a trial

Visiting a place on holiday is very different to living there. So before making any decisions, try living in the location for between six to 12 months. That way you can make sure you'll be happy, healthy and safe.

During your trial, ask yourself these questions:

- How easy it is to make new friends? And are you comfortable being away from your relationships and life in Australia?
- What's day-to-day life like? How safe and secure is the neighbourhood? Are utilities and transport available and reliable?
- Are the local cultural expectations a good fit for you? Do local values suit your lifestyle?
- What's the climate like year-round? And is it helpful or harmful for any medical conditions you have?
- What are your legal rights? Are you able to rent, buy property, own a car, or get a driver's licence?

2. Check out the visa requirements

Research what visa you'll need to live in your chosen country long-term, and if you're able to stay without being a resident.

Most visas need regular renewal and there's often a limit as to how often you can renew.

If you plan to move permanently you may be able to apply for permanent residency, however this may be complicated and time consuming.

What's more, applying for residency overseas may affect your Australian tax residency status, with possible implications for your banking and your super payments.

If you'd like to discuss overseas retirement living please speak to us. We can advise you on your options, taking into account your overall financial goals and current assets.

3. Consider the medical services and cost

Access to healthcare is a key priority, so carefully evaluate the standard and cost of healthcare in your target country – and what would happen if you got critically sick. If you take medication, make sure your medication is both legal and available.

Neither Medicare nor Australian private healthcare funds will pay for your medical treatment overseas. While Australia has reciprocal healthcare agreements with some countries, elsewhere you'll have to pay your healthcare costs in full.

4. Assess the financial implications

Consider how you'll manage your superannuation and pension payments, and where and how you'll do your banking. You'll also need to consider how fluctuating currency exchange rates could impact how much money you get and how far it goes.
Super pensions and lump-sum payments have tax concessions in Australia, but this might not be the case in the country you're relocating to. Make sure you understand the local financial laws and tax implications to avoid breaking them or paying double taxation.
If you move overseas, you may still be eligible for an Australian Age Pension, but it may be less than what you would receive in Australia. The Smart Traveller website is a good place to start your research.

How we can help.

Retiring overseas can have big implications for your wellbe-ing, your super, Age Pension benefits, and tax obligations. While we've touched on some of the considerations in this article, it's important to get early, expert advice from your financial adviser.

Why the push for companies to do the right thing is good for Australian share market investors.

As tensions between Australia's largest companies, their customers, and the federal government flare, companies such as Woolworths, AMP, and Qantas are placing a higher priority on measuring their community reputation.

We discuss why a company's reputation is important to investors and examine the implications for your retirement savings.

Reputation is fundamental to share market performance

Across the Australian community, there's a growing expectation that businesses should have a positive impact on the societies they're part of. Simply put, do the right thing – and be seen doing the right thing.

A good reputation builds slowly over time. When a company's reputation is healthy, it can attract the customers, workers, suppliers, and financiers it needs to operate. This in turn provides fertile ground for the company to grow, earn income, and pay dividends to shareholders.

In contrast, a company with a bad reputation may face boycotts, find it hard to recruit staff and be on the receiving end of unwelcome government and media scrutiny. When the right incentives are in place, market forces can encourage business executives to act with integrity, actively engage with stakeholders, listen and reflect on concerns raised.

Companies experience community wrath

An example of how rapidly a bad reputation can destroy shareholder value was when the price of AMP shares dropped between March and October 2018 from a high of $5.47 to $2.31.
That's a remarkable fall of over 50% in the space of six months.

This was precipitated by the fallout from AMP being found to have mislead Australia's corporate regulator – the Australian Securities and Investments Commission – over its involvement with an independent report and fees-for-no-service following the 2018 Financial Services Royal Commission.1

More recently, in April 2024, executives from Woolworths and Coles were called to a Senate hearing to address rising community anger about supermarket prices and company profits in the face of cost-of-living pressures.

At the hearing, Woolworths departing chief executive, Brad Banducci was warned that he could be held in contempt of the Senate and face potential jail time after repeatedly refusing to answer a question about Woolworth's profitability.2

Qantas has experienced similar hits to its formerly first-rate reputation, becoming the most complained about company to the Australian Competition and Consumer Commission. Qantas faced a class action from angry customers who were unable to get their money or points back after flights were cancelled due to COVID-19.3

Then, at a Senate select committee hearing in August 2023 into the cost-of-living, Qantas chief executive Alan Joyce evaded questions about high fares.4

1 ABC News, **'Blood in the streets' as AMP shares plummet to record low,** 26 October 2018, accessed 2 May 2024.

2 SMH, **Woolworths chief Brad Banducci threatened with jail time at Senate supermarket inquir**y, 16 April, 2024, accessed 2 May 2024

3 AFR, **Qantas sued over 'misleading' flight credits, refunds**, 21 August 2023, accessed 2 May 2024

4 AFR, **Labor aims to 'protect' Qantas profit, Joyce clashes with senators**, 28 August 2024, accessed 2 May 2024

5 AFR, **A hot tip for CEOs – reputation counts for everything**, 21 April 2024, accessed 2 May 2024

6 Ibid

7 Ibid

8 APRA, **Prudential Standard CPS 511**, August 2021, accessed 2 May 2024

Reputation set to become a higher priority

The takeaway from these high-profile cases is that they're compelling a growing number of companies to realise they must close the gap between community expectations and corporate behaviour.

Boards are doing this by including reputation metrics in their executive incentive schemes. For Woolworths, vesting from 2024, a reputation metric now accounts for 20% of executives' long-term bonuses – replacing targets measuring sales per square metre.5

Other companies that have also introduced reputational metrics into executive bonus plans include Qantas, as well as the Commonwealth Bank and AMP.6

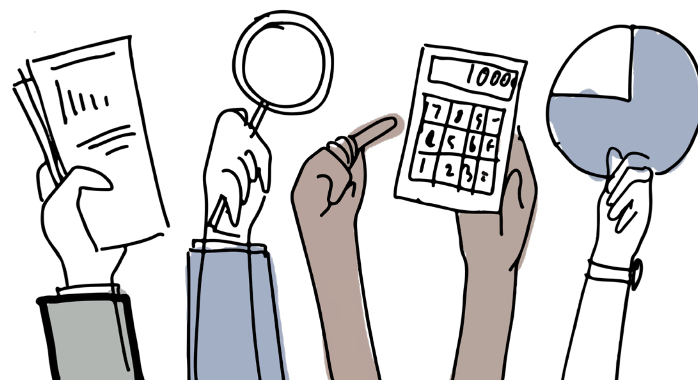
AMP says that including reputation as a metric – accounting for 30% of executive long-term bonus plans – helps it meet the requirements of a new standard imposed by the Australian Prudential Regulation Authority (APRA).7

In CPS 511, APRA-regulated entities are required to incentivise executives to manage non-financial risks and foster sustainable performance.8

When the behaviour of companies is held to account, companies are forced to take responsibility for their actions and more carefully manage their risks. This in turn helps strengthen the value of companies, along with your share investments in them.

Talk to us.

If you'd like to discuss the any of the companies that make up your investment portfolio, please talk to us.



Mastering your retirement: Is an SMSF the ultimate investment strategy for you?

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Did you know...?

SMSFs can have up to four members, who are usually family members or business partners. Each member is a trustee of the fund or a director of the corporate trustee, giving them direct control over investment decisions and fund management.

Greater Control & Flexibility

With an SMSF, you have full control over how your superannuation funds are invested. This level of control allows you to tailor your investments to suit your risk tolerance, financial goals, and preferences.

Unlike traditional superannuation funds, which typically offer a limited range of investment options, an SMSF allows you to invest in a wide variety of assets, including direct shares, property, managed funds, and even collectibles like art or wine.

SMSFs offer a wide range of investment options, including shares, property, cash, and alternative assets such as art or collectibles. This flexibility allows members to diversify their investment portfolio and take advantage of opportunities in different asset classes.

Cost Savings: While there are costs associated with setting up and running an SMSF, these can be lower than the fees charged by retail or industry super funds, particularly for those with larger balances. By managing their own fund, members can potentially save on administration, investment management, and other fees.

Tax Efficiency

SMSFs can be tax-effective, particularly for those in retirement. Income earned within the fund is generally taxed at a concessional rate of 15%, and capital gains on investments held for more than 12 months are taxed at a maximum of 10%. Additionally, members aged 60 and over can access their super benefits tax-free.

While there are costs associated with running an SMSF, they can be more cost-effective for individuals with larger superannuation balances. This is because the fees are typically fixed, regardless of the size of the balance, making them relatively more affordable as the balance grows.

As the balance of the SMSF grows, there can be economies of scale, meaning that the costs per member can decrease over time, making it more cost-effective compared to traditional superannuation funds.

Estate Planning Effectiveness

SMSFs offer greater flexibility in estate planning compared to retail or industry super funds. Members can control how their super benefits are distributed upon their death, ensuring their wishes are carried out and minimizing potential disputes among beneficiaries.

Control Over Distribution: An SMSF allows you to have more control over how your superannuation benefits are distributed upon your death. You can specify in your SMSF trust deed how you want your benefits to be distributed, ensuring that they are distributed according to your wishes.

Asset Diversification

Assets held within an SMSF may be better protected from creditors in certain circumstances compared to assets held personally. This can be beneficial for estate planning purposes, especially if you are concerned about potential creditors in the future.

Spread of Risk: Diversification is key to managing investment risk. With an SMSF, you have the flexibility to diversify your investments across different asset classes, industries, and geographic regions, reducing the impact of a single investment underperforming.

Access to Different Asset Classes: SMSFs offer access to a wider range of asset classes than traditional superannuation funds, including direct property, which can further enhance diversification and potentially improve long-term returns.

Borrowing To Invest

Increased Investment Opportunities: SMSFs can borrow to invest in certain assets, such as property, through limited recourse borrowing arrangements (LRBAs). This can allow you to access investments that may otherwise be out of reach, potentially enhancing your investment returns.

Risk Management: LRBAs can be a useful tool for managing risk, as the lender's recourse is limited to the asset being purchased. This means that if the investment goes sour and the SMSF defaults on the loan, the lender can only take possession of the asset and cannot go after other assets in the SMSF.

Talk to us.

If you'd like to discuss if a SMSF is the right investment strategy for you, get in touch with our team at Smart Private Wealth.

If you'd like to learn more about structuring a SMSF, speak to us.

Gross Domestic product increased

0.1%

for the March quarter [9]

The unemployment rate is

4.1%

at April 2024 [10]

Consumer Price Index annual change is

3.6%

at the March 2024 quarter. [11]

The Wage Price Index (WPI) rose

0.8% in the March 2024 quarter [13]

130,000

people retired in 2022 with an average age of 64.8 years [12]

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