SMSF Association National Conference 2018

14 – 16 February 2018

ICC Sydney

Beyond

SMSF exit strategies and alternatives

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SMSF ASSOCIATION

Introduction

With around 600,000 funds and 30,000 new funds established each year, there is no doubt that SMSFs are the fastest growing sector of the super industry, a trend that is likely to continue. [1]

Whilst the establishment and growth of SMSFs receives plenty of attention, little importance is paid to the other end of the SMSF life cycle – when an SMSF is no longer appropriate. Recent ATO data shows around 12,000 SMSFs are wound up each year. [1]

There are many instances when clients may need an SMSF exit strategy so it is important to understand the alternatives available. For example, the increasing number of Australians living with dementia and Alzheimer's has encouraged SMSF trustees to consider their options.

Additionally, the introduction of the $1.6 million transfer balance cap and the reduction in contribution caps also mean that many trustees need to consider structures outside of super to both distribute and accumulate their wealth.

Industry activities regarding exit strategies

ASIC reports on SMSF advice

In 2012, the Australian Securities and Investment Commission (ASIC) set up an SMSF taskforce to look at risks in the SMSF sector. In April 2013, ASIC handed down its Report 337 entitled *'SMSFs: Improving the quality of advice given to investors'*.

The report summarised the findings of ASIC's review into more than 100 pieces of SMSF advice provided to investors. It identified practical tips practitioners can use to improve the quality of the SMSF advice they provide. Whilst ASIC found the majority of advice given was adequate, they expressed concern about instances of poor advice.

Some of their areas of concern included advice relating to:

- low balances
- undiversified portfolios
- property and borrowing arrangements
- no insurance recommendations
- no replacement product disclosure
- non-disclosure of lack of access to statutory compensation scheme for theft or fraud
- no exit strategies.

Whilst several of ASIC's concerns were widely held within the industry, many were surprised to see the lack of an exit strategy as an important issue. ASIC was particularly focused on the importance of an exit strategy where a portfolio was undiversified.

In July 2015, ASIC released Information Sheet 205 entitled '*Advice on self-managed superannuation funds: Disclosure of risks*'.

The report explained the risks that should be considered and disclosed to clients when providing personal advice on SMSFs. These included:

- the lack of a statutory compensation scheme
- the impact on insurance
- access to complaints mechanisms
- the appropriateness of different SMSF structures
- trustee obligations and the time and skills necessary to operate an SMSF
- trustee obligations to develop an investment strategy
- the need to consider an exit strategy.

The report also included a compliance tip that ASIC are likely to look at whether clients have been made aware of what may be required to wind-up their SMSF and the associated costs involved.

Elder abuse

The Australian Law Reform Commission (ALRC) was asked to consider Commonwealth laws and legal frameworks and how they might better protect older people from misuse or abuse.

In June 2017, the ALRC tabled *Report 131: Elder abuse – a national legal response*.

The report includes 43 recommendations for law reform to safeguard older people from abuse and support their choices and wishes.

There were four recommendations relating to super, three of which recommended better succession planning across the SMSF sector. These include:

- improvements to the binding death benefit nomination process.
- simplification of the process for an enduring attorney to become a trustee or director of an SMSF.
- the requirement of SMSF trustees to consider loss of trustee capacity as part of the fund's investment strategy and objectives.
- the requirement of SMSF trustees to notify the ATO when an enduring attorney becomes a trustee or director.

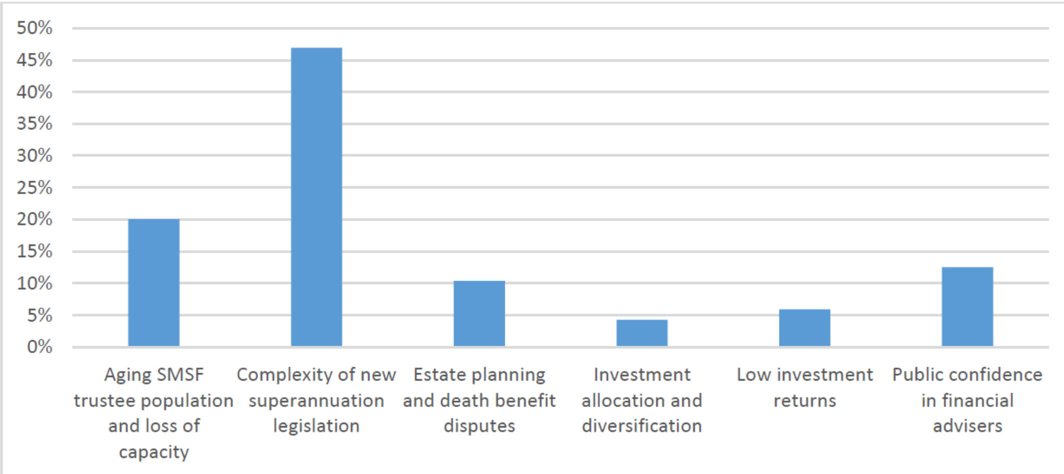
SMSF Association 2017 annual member survey

In September 2017, the SMSF Association conducted its annual member survey. 488 members responded to the survey, 351 of whom were SMSF Specialist Advisors.

One question asked was 'What is the single biggest challenge you believe the SMSF industry is currently facing or will face in the near future?'.

Not surprisingly, nearly 50% of respondents cited the complexity of the 1 July 2017 legislative changes as the biggest challenge. However, the next most significant area of concern was the aging SMSF trustee population and loss of capacity.

What is the single biggest challenge you believe the SMSF industry is currently facing or will face in the near future?



When do SMSF trustees need an exit strategy?

There are a number of trigger events that may lead to clients needing an SMSF exit strategy including when:

- a member dies
- a member gets divorced
- a member loses capacity
- a member becomes disabled
- a member loses interest in remaining a trustee of an SMSF
- a member becomes a disqualified persons
- a member becomes a non-resident.

Death

Death is a significant trigger event for a review of the viability of an SMSF. Practitioners are well aware that SMSF trustees are jointly and severally responsible for the running of the SMSF. However, in practice there are occasions when some trustees are more responsible than others. In the event that a 'more responsible' trustee dies, the remaining trustee may not be willing or able to continue in the role of trustee.

The payment of a death benefit also becomes an important issue if indivisible or illiquid assets are involved, or if there are assets such as business real property that the family unit wishes to retain.

Divorce

If a relationship breakdown occurs between a couple who are trustees of an SMSF it is often highly desirable for each member to make their own future super arrangements. Whilst the former couple may maintain a cordial and constructive relationship, this is not always the case. Running an SMSF with trustees who are not on good terms becomes difficult at best and often impossible.

Additionally, if a family law split is being made from an SMSF, it is possible to take advantage of the capital gains tax (CGT) exemptions when moving one of the parties to a small APRA fund (SAF) or a new SMSF. This is generally not available if the family law split is paid to a public offer fund.

Loss of capacity and disability

As clients' age, the loss of capacity as a result of dementia or other illnesses is an increasing source of concern for SMSF trustees. The prevalence of dementia is projected to increase, so these concerns will escalate. [2]

There are currently more than 410,000 Australians living with dementia. By 2025 this number is expected to reach 530,000. Dementia is the second leading cause of death of Australians and in 2016 overtook heart disease as the leading cause of death in Australian women. [3]

If an SMSF trustee loses mental capacity they cannot continue in the role of trustee and so are unable to be a member of an SMSF. There are no legal issues with a person who lacks mental capacity being a member of a public offer fund or a SAF. However, there may be practical impediments to such a person becoming a member of a public offer fund or a SAF if they do not have an enduring power of attorney. Accordingly, having an enduring power of attorney for SMSF trustees is an essential part of the SMSF establishment process.

Lack of interest

Loss of interest can be a driving force behind an SMSF exit strategy. Many SMSF trustees are skilled and committed when they commence their journey but may become less interested and able as they age.

Disqualified persons

A disqualified person is an individual who:

- has been convicted of an offence involving dishonesty
- is an undischarged bankrupt
- has been disqualified by a Regulator of a civil penalty.

If an SMSF trustee becomes an undischarged bankrupt, they must notify the ATO immediately and make alternative arrangements for their SMSF within six months of declaring bankruptcy. If alternative arrangements are not made within the six months, the fund will fail the definition of an SMSF and is not eligible for tax concessions.

A disqualified person cannot legally be a trustee and is therefore unable to be a member of an SMSF. There are, however, no legal issues with disqualified persons being members of a public offer fund or a SAF.

Residency

To be eligible for concessional tax treatment, a super fund must meet the definition of an Australian super fund. If a fund fails to meet the test at any time during the income year, they do not meet the definition of an Australian super fund and are not entitled to tax concessions.

A super fund is classified as an Australian super fund if:

- the fund was established in Australia, or any asset of the fund is situated in Australia, and
- the central management and control of the fund is ordinarily in Australia, and
- active members who are Australian residents hold at least 50 per cent of the fund's value.

For SMSF trustees, the residency test is particularly important. As the trustee is responsible for the central management and control of a fund, their physical location is paramount.

If an SMSF trustee becomes a non-resident, the fund will generally fail to meet the definition as the high level decisions relating to the fund will be made wherever the trustees reside. There is a grace period where the trustees can be temporarily outside Australia for a period of not more than two years and can still meet the definition of an Australian superannuation fund. However, absences beyond two years, or permanent residence overseas will generally see the fund fail the definition.

In a public offer fund or a SAF, the trustee will invariably be a body corporate, incorporated in Australia, with the business of the fund being managed from Australia. As a result, the central management and control test is generally easily met.

Active members are members who contribute, or for whom contributions are made to a fund. For the purpose of the residency test, contributions include rollovers to a fund.

In a public offer fund, although there may be a number of non-resident members who contribute, it is rare that those members hold at least 50 per cent of the fund assets. Accordingly, the active member test is usually not an issue in a public offer fund.

In a SAF however, given that membership is limited to a maximum of four members, the active member test can be a barrier for non-residents. A SAF can only meet the active member test if non-resident members don't contribute or if contributory resident members hold greater than 50 per cent of the fund's assets.

Why do members need an exit strategy?

The need to consider an exit strategy is linked to three main factors:

- The fund's assets.
- Tax implications.
- Fund viability.

The fund's assets

An exit strategy may be needed due to the fund's investments.

Does the fund have illiquid or indivisible assets that affect its ability to make benefit payments or mean a death benefit must be paid as a pension rather than a lump sum?

Does the fund have assets which cannot be accepted by retail funds such as property, limited recourse borrowings, private companies or collectables? In addition, many retail funds do not offer the range of listed investments available to an SMSF.

Difficulties may arise if there are assets in the fund that the members wish to retain in the family unit, for example business real property. If the client's children are running a business from a property held by the SMSF, what happens if the fund is wound up?

Tax implications

One of the most desirable features of an SMSF is its ability to control the timing of tax events, particularly the disposal of assets that result in a capital gain. If the fund is wound up prematurely, any capital gains will be crystallised and any capital losses cannot be carried forward. This is particularly undesirable if clients have not yet met a condition of release and have thus not been able to commence retirement phase pensions.

Fund viability

If one or more members die or can no longer be a trustee, it is important to consider the attitudes and abilities of the remaining members. Do the surviving members want the fund to continue? An SMSF is often an exciting and interesting venture when undertaken by a couple but quickly turns to a burdensome chore when left to only one person.

Do the remaining members have the necessary skills and interest levels to continue managing the SMSF? Appointing a friend or relative as an additional individual trustee can create privacy issues because the new trustee has access to information about the surviving trustee's wealth.

Exit strategy alternatives

There are three primary exit strategies for an SMSF. The SMSF can:

- rollover to a public offer fund
- convert to a SAF
- pay benefits to members if they meet a condition of release.

The most appropriate alternative will depend upon the trigger event for the exit strategy, the fund's assets and the attitudes of any remaining members.

Rolling over to a public offer fund

Rolling over to a public offer fund is a CGT event. Any gains will be realised and tax payable. If capital losses exist, they cannot be carried forward.

Although still a common misunderstanding, a CGT event occurs regardless of whether assets are sold down and cash is transferred to the public offer fund or assets are transferred in-specie. If members are in the pension phase this may not be an issue, however it may be a significant cost if the fund is still in accumulation phase.

The range of investment options available in a public offer fund may also be a significant issue. It is important to compare the SMSF's existing investments with those available in a public offer fund. If the SMSF has assets that cannot be accepted, how do the members feel about disposing of the assets? This may be an issue if the SMSF has real property, collectables or shares in private companies. If the SMSF has a residential apartment on the Gold Coast, the SMSF members may be perfectly comfortable in selling the property to facilitate a move to a public offer fund. If, however, the property is business real property that the SMSF members are running the family business from, its sale may be highly undesirable.

Another barrier to rolling over to a retail fund is if the SMSF is paying complying pensions. Members may be able to take advantage of an ability to retain a Centrelink exemption where an SMSF is wound up due to the death of a member or the administrative responsibilities of running the SMSF have become too onerous. However, very few retail funds will currently accept account-based term allocated pensions, let alone complying lifetime or life expectancy pensions.

Issues may arise for clients who receive a Centrelink income payment and have an account-based pension and therefore the new deeming rules do not apply. If a member's SMSF pension account is rolled over to a retail fund, the grandfathering will cease. The balance of the account-based pension will then be treated as a financial asset and deemed for the purpose of assessing Centrelink eligibility. Any loss of age pension and associated entitlements via the pension concession card may be of considerable detriment to a client's financial position.

Where benefits are rolled over to another fund, the SMSF trustee must complete a rollover benefit statement reporting obligations to the new fund and the member. The trustee must also retain copies of the records.

Converting to a small APRA fund

An alternative to a public offer fund is to convert the SMSF to a SAF. A SAF is an SMSF with a professional licenced trustee. The professional trustee company manages the fund for the benefit of the members and is responsible for all compliance, regulatory reporting and administration of the fund.

Nearly all of the legislative concessions that apply to SMSFs are also available in SAFs, including the ability for members to direct trustees in respect of death benefits and investments.

The conversion from an SMSF to a SAF can avoid the imposition of CGT if clients retire as trustees of the fund and appoint the professional licensed trustee. The fund (the tax-paying entity) continues uninterrupted and does not dispose of any assets; there is simply a change in trustees. There is no change of tax file number or Australian business number.

Superannuation laws regarding the acceptable investments of SMSFs and SAFs are technically the same, however in practice SAF trustees are likely to have limitations that may not exist in some SMSFs, particularly SMSFs with undiversified portfolios.

Moving to a SAF may help members who wish to retain particular investments such as a unique shareholding, real property or collectables. Different SAF trustees will have their own rules in respect to allowable assets, however a SAF will be far more likely to accept a particular asset than a retail or industry fund. Provided that the total fund investments are relatively diversified, it is common for SAFs to allow holdings of real property, private company shares and collectables.

In a SAF, the investment decisions are directed by the member, the trustee does not generally make investment decisions unless the members fall outside of their elected investment strategy. Even then, the trustee will generally require the members to rectify the situation and the trustee stepping in will only be as a very last resort.

A SAF will also be able to continue any complying pension that may exist, both account-based term allocated pensions and complying lifetime or life expectancy pensions. Converting an SMSF to a SAF will not have any implications for the grandfathering of Centrelink deeming on account-based pensions.

The appointment of a professional trustee will also ensure that personal financial information is not shared with any other party.

Meeting a condition of release

If the members have met a condition of release it is possible to simply pay the member benefits and wind-up the SMSF.

Naturally, comparing the tax-effective environment of super with other forms of investments need to be considered, as does the client's ability to return money to super. If clients are ineligible to contribute then their ability to invest in super is lost. If clients are eligible to contribute but have benefits that will exceed their contributions caps, the time taken to return monies to the concessionally taxed environment needs to be accounted for.

There may be Centrelink or Social Security implications of cashing benefits from an SMSF which need to be considered.

When winding-up an SMSF it is important to ensure that trustees make adequate provision for fund taxes and expenses that may be incurred as a result of the wind up. In addition, there are a variety of reporting obligations that must be complied with.

Alternative structures

The introduction of the $1.6 million transfer balance cap and the reduction in contribution caps mean that many clients need to consider structures outside of super, both for the distribution of wealth via their estate plans and for wealth accumulation.

Death benefit issues

The death of a member is the only 'compulsory cashing' event remaining in superannuation. The member's benefits must be paid to their super dependants as soon as practicable after the member's death. The benefit may be cashed by paying a lump sum benefit, paying one or more pensions or a combination of both.

Death benefit pensions

A common misunderstanding is that a death benefit can only be paid as a pension if it is a reversionary pension. Provided that the fund rules allow, a death benefit can also be paid as a pension from either a non-reversionary pension or an accumulation account.

A death benefit pension counts towards the beneficiary's transfer balance cap. Death benefit pensions are also considered a retirement phase pension irrespective of the age of the recipient. If the death benefit is paid as a pension, the maximum amount that can be used to start the pension is restricted to the transfer balance cap, currently $1.6 million. Any amount above the transfer balance cap must leave the super system.

Child death benefit pensions

There are special rules for death benefit pensions paid to children. In situations where there are multiple beneficiaries, each child receives a proportionate share of either the parent's retirement phase interests on death or the general transfer balance cap.

When the pension ends (generally when the child turns 25 or the assets backing the pension are exhausted), the child's transfer balance account is deleted. This ensures that if an individual received a death benefit pension as a child it does not impact their ability to start a pension when they retire.

Insurance in super

Insurance proceeds form part of a member's accumulation balance. Any insurance proceeds received count towards the recipient's transfer balance cap. Unlike structured settlement personal injury contributions, there is no transfer balance debit for insurance proceeds.

Any insurance proceeds that form part of a death benefit pension are subject to the dependant's transfer balance cap and may result in insurance proceeds needing to be paid out of the super system.

If individuals have total & permanent disability (TPD) cover in their SMSF, any TPD pension will be limited to the transfer balance cap amount. If TPD were to occur at a young age it may be necessary to manage funds in accumulation phase, or outside of super.

Estate plans

It is essential that members with larger super balances and/or insurance review their estate plans to ensure any benefits that may be forced out of the super system are directed to structures that can be controlled, such as testamentary trusts established via a Will.

Whilst the tax-effective distribution of assets is an important consideration, many members with children will favour greater control over how their super benefits are distributed.

Alternative distribution structures

An effective distribution structure for excess super benefits is a testamentary discretionary trust created by the member's Will. Alternatively, if members have met a condition of release, they can take a benefit payment from the SMSF either in-specie or as a cash payment. The proceeds can then be moved to a family trust, used to commence an investment bond or simply held by the client personally.

Testamentary trusts

Testamentary trusts can provide estate planning certainty for clients and also allow for tax-effective distribution of income between family members.

A testamentary trust is a trust that is created within and by a person's Will but does not take effect until after their death. A testamentary trust may be created using specified assets, a designated portion of an estate or the entire remaining balance of an estate. Multiple testamentary trusts may be created by the one Will.

A member can make death benefit nominations to pay any amount above the transfer balance cap to their legal personal representative to be distributed in accordance with their Will. This enables clients to stream income from their super benefit to death benefit dependants.

Protection of beneficiaries

Many parents appreciate the tax efficiency of paying death benefit pensions to minor children but balance this with their fear of what their children may do with a large sum of money. Generally, a death benefit income stream can be commuted at age 18 which is not an age that many parents feel their child would make responsible financial choices. Directing some or all of the super balance to a testamentary trust can address this issue because the parent can control when a child has access to funds.

Clients may have other beneficiaries who will benefit from not having direct control over an inheritance. These can include spendthrift beneficiaries, those with gambling, alcohol or drug addictions or people who are easily influenced by others.

Taxation advantages

Taxable income generated by the trust can be retained by the trust or allocated to the beneficiaries in a tax-effective manner. The trustee can be given discretionary powers about the distribution of income which makes the testamentary trust a flexible tax-planning vehicle.

Beneficiaries pay income tax at their individual marginal rates on the amount of income they receive from the trust. However, unlike tax on income from other sources, beneficiaries of testamentary trusts under age 18 are taxed at normal adult rates rather than the penalty tax rate applied to minors. As a result, the potential for tax savings when trust income is allocated to children can be substantial.

Protection of assets

As the assets of the trust are not legally owned by the beneficiaries, testamentary trusts provide a level of protection in the event of a beneficiary's relationship breakdown. The assets are held in a trust and the income and capital are distributed at the discretion of the trustee (who would not typically be the child in the difficult relationship).

The use of a testamentary trust can also be helpful for clients with beneficiaries who are at risk of bankruptcy. If a Will simply leaves assets directly to a beneficiary, if they become bankrupt, their inheritance may pass straight through to the trustee or to creditors. Assets held in a testamentary trust are generally better protected.

Family trusts

Discretionary family trusts (also known as inter vivos trusts) are a popular business and investment structure in which the trustee holds assets in trust for a group of beneficiaries, usually family members. They offer asset protection and taxation advantages.

If a member has met a condition of release they may cash their super benefit and transfer assets to a family trust. The trust's assets will not form part of a client's estate, however they can influence the future control of the trust through their Will and by appropriately structuring replacement trustee arrangements.

Investment bonds

Investment bonds can provide a very simple method of transferring wealth. The investment bond is an insurance contract and does not form part of a client's estate thus cannot be the subject of estate disputes. Generally, clients would structure the bond so they are the policy owner and the life insured and the person to whom they want the proceeds paid to is the beneficiary. Amounts deposited in the bond receive investment returns which are not distributed but are fully tax paid when received after the death of the life insured.

An additional advantage of an insurance bond is, that unlike super, there are no restrictions as to who can be nominated as a beneficiary. The bonds can also nominate charities, trusts or companies as beneficiaries.

Wealth accumulation

The reduction in the non-concessional contribution cap to $100,000 per annum (and nil for clients with total super balances of $1.6 million or more) has meant that many clients are seeking alternative wealth accumulation vehicles.

For clients with adjusted taxable incomes of $250,000 pa the impact of the additional 15 per cent (Div 293) tax on contributions makes certain alternative vehicles tax neutral when compared to super.

Family trusts

Family trusts can be a tax-effective wealth accumulation vehicle for high income earners. Clients can direct business or investment income earnings into the trust. The trust then needs to allocate all of the income and can make payments to trust beneficiaries with lower incomes. This can be a popular way to support retired parents and children over 18 who are still in higher education.

Accumulating wealth in a family trust can provide clients with control over how, when and to whom income and capital is distributed. This can assist clients who have spendthrift beneficiaries. In addition, assets are generally protected from creditors and relationship breakdowns.

Investment bonds

Investment bonds can provide a tax-effective wealth accumulation vehicle. The investment earnings within the bond are taxed at a maximum rate of 30 per cent, rather than at a client's marginal tax rate. The bond does not distribute income to beneficiaries so there is no personal tax liability until a withdrawal is made. Withdrawals made after 10 years are fully tax paid. Withdrawals made in the eighth year or earlier result in the investment returns (growth component) being fully assessable, but with a 30 per cent tax offset. Two thirds of the growth component is assessable for withdrawals made in the ninth year and one third is assessable in the tenth year. Again, the 30 per cent tax offset applies.

Other advantages of investment bonds include:

- Tax simplicity
  - Unless withdrawals are made within 10 years there is no impact on a client's tax return.
- Access to funds
  - Unlike super funds, investment bonds can be accessed at any time.
  - However the 10 year tax paid period provides an incentive to invest for the longer term.
- Loan facilities
  - Unlike super, the balance of an investment bond can be used as security for a loan.
  - Many investment bonds offer access to an internal loan facility which allows clients to borrow for investment purposes.
- Flexible ownership structure
  - Investment bonds can be owned by individuals, joint owners, companies or trusts.
  - Ownership can generally be transferred to another person, organisation or into joint names without incurring additional fees, stamp duty, personal income tax or capital gains tax. The start date of the ten year tax period also remains unchanged.
- Regular savings plan
  - Every year, up to 125 per cent of the previous year's contributions can be added to an investment bond without restarting the 10 year investment period for tax purposes.
- Income testing
  - The bond does not distribute income and can thus provide an effective vehicle to enable some clients to be eligible for the Commonwealth Seniors Health Card.

Case study – Jay Jay

Jay Jay has $2.2 million in his SMSF. His potential beneficiaries include his wife Glory, his two minor children Matty and Joe and his two adult children Clara and Mitch. In the event of his death, Jay Jay wishes for his super to support his financial dependants but has not considered leaving any of it to Clara and Mitch.

Jay Jay understands the tax advantages of his beneficiaries receiving his death benefit as a pension but acknowledges that only $1.6 million can be paid as a pension.

This means $600,000 of his SMSF account balance must be dealt with outside super, however Jay Jay is expecting to make a small business CGT contribution in the future which will significantly increase his balance. As his SMSF has never paid 15% tax on its investment returns, he is confident that the SMSF remains the most tax-effective vehicle for his retirement savings.

Jay Jay is concerned that Joe may not make prudent choices if he received a significant amount of money in his adolescence. Although he believes that Matty would make mature choices, he wants to treat both boys equally.

Jay Jay knows that whilst Glory does not have a great deal of financial experience she has access to professionals who do, appreciates the value of good advice and will seek help if something happens to him. However, he is concerned she may not wish to continue to run the SMSF.

Jay Jay met with his financial planner and estate planner and arranged the following:

1. The trust deed and corporate trustee constitution was reviewed to ensure that Glory retains control of the SMSF in the event of his death.
2. His death benefit nomination was updated to a non-binding nomination in favour of Glory. As the surviving trustee, this will provide her with the flexibility to manage death benefit pensions for herself, Matty and Joe, depending upon what best suits their personal circumstances at the time. This may include rolling over pensions to a retail fund and winding up the SMSF.
3. Jay Jay's Will was updated to establish testamentary discretionary trusts to allocate any death benefits above the transfer balance cap in a tax-effective manner to Glory, Matty and Joe.
4. Jay Jay and his advisers noted that they will revise his plans if Glory receives a large inheritance providing financial security for Matty and Joe. If this occurs, Jay Jay would like to provide financial assistance to Clara and Mitch.

Case study – Pabla

Pabla has $5 million in her SMSF with a taxable component of approximately 90%. She has a binding death benefit nomination in favour of Glory. She understands that Glory is not eligible to receive any of her benefit as a pension and will pay 17 per cent tax on most of the $5 million, just over $750,000.

Prior to 1 July 2017, Pabla's annual pension payments were around $200,000 per annum but have reduced to $80,000 per annum as a result of complying with the transfer balance cap changes. Pabla is finding that $80,000 sufficiently meets her annual income needs. She is also considering downsizing her home in the near future and expects to have significant cash left over as a result.

Pabla is concerned about Glory paying $750,000 in taxes and is considering withdrawing $3 million from her super fund, thereby reducing the amount of tax that Glory would pay from around $750,000 to just over $300,000 – a saving of approximately $450,000. She also doesn't have the interest that she used to have in actively managing the investments of the SMSF.

Pabla meets with her adviser and decided to withdraw $3 million and establish a number of investment bonds with Glory, Matty and Joe as beneficiaries.

Conclusion

Whether SMSF clients need an exit strategy or not may not be front of mind for practitioners when an SMSF is established. However, there are a number of instances in which one may be required. Taking steps to identify the potential trigger events and various exit strategies that exist, may enable practitioners to assist clients in achieving their retirement goals, even when things don't go to plan.

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