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Specialist funds manager Pengana Capital has launched a global volatility fund that invests in equity indices to capitalise on market volatility.

The Pengana Global Volatility Fund already has commitments of more than $150 million from a significant Australian institutional investor at a time when sharp changes in key global markets are providing significant challenges for investment managers and their clients.

The fund is designed to capitalise on changes in market volatility, initially in the US S&P 500 index and progressively extending to major indices in global stock markets. It offers an absolute return investment strategy uncorrelated to traditional investments, with real-time transparency and risk management.

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Single interest concept hits SMSFs

MARTIN BRECKON outlines recent changes to self-managed super fund regulation surrounding single and multiple interest.

Historically, self-managed superannuation funds (SMSF) have been favoured for their flexibility, as they offer members more choice and control than retail funds.

Now, the tables are beginning to turn, with the Australian Taxation Office (ATO) increasing scrutiny of SMSF control and management.

Also, the regulators are beginning to target SMSFs from a technical perspective: the latest in a string of changes is the implementation of the 'single-interest' concept, from July 1, 2007.

Draft regulations released in February required that from July 1, 2007, all multiple interests "be treated as one superannuation interest" by a superannuation fund.

However, when the final regulations were released on June 28 this year, this restriction was applied only to SMSFs.

According to a speech by the Deputy Commissioner of Taxation, the principle – that every amount or entitlement that a member holds in a scheme is to be treated as one interest unless otherwise provided for in the regulations – has been removed for all but self-managed funds.

This stops a SMSF member from keeping their concessional and non-concessional contributions separate. Unless an income stream (eg, a pension) has been commenced, members of SMSFs must now consider all their interests as one.

Table: Door closing for SMSFs

Date	Change
May 12, 2004	Restrictions on benefit forfeiture
August 20, 2004	Sole pensioner provisions tightened
January 1, 2006	Defined benefits pensions disallowed
Ongoing	Overseas active members' test
July 2, 2007	Single interest rule

CASE STUDY 1

Impact of the proportioning rule on withdrawals and rollovers

JIM Stuart is 56 and has three accumulation accounts in a SMSF. His accounts and their components are shown. He wishes to make a lump sum withdrawal on March 12, 2008.

	Account value	Tax-free amount	Tax-free proportion
Account 1	$100 000	Nil	0
Account 2	$100 000	Nil	0
Account 3	$100 000	$30,000	30
Total	$300 000	$30,000	10

A lump sum benefit paid from any of the three accounts will be 10 per cent tax-free, regardless of the account from which it is drawn.

If Jim commences a transition to retirement pension on March 12, 2008, then 10 per cent of every pension payment will be tax-free. Also, 10 per cent of any future commutation lump sum will be the tax-free component. If the accounts had been separate interests, then Jim could have taken a withdrawal from his third account, with 30 per cent of the amount tax-free.

CASE STUDY 2

Impact of non-concessional contributions

On May 4, 2008, Jim makes a non-concessional contribution of $50,000 to his third account.

	Account value	Tax-free amount	Tax-free proportion
Account 1	$100,000	Nil	0
Account 2	$100,000	Nil	0
Account 3	$150,000	$80,000	53.33
Total	$350,000	$80,000	22.86

If he commenced a TTR pension, then 22.86 per cent of each benefit payment from the pension would be the tax-free component (rather than 53.33 per cent for his third account, if it were a separate interest.

CASE STUDY 3

Impact of growth and negative returns

During the year, Jim has enjoyed some capital growth and income on his first and second accounts but negative returns on his third account. The returns have increased (or decreased) his taxable component, with the following impacts:

	Account value	Taxable	Tax-free amount	Tax-free proportion %
Account 1	$130,000	$130,000	Nil	0
Account 2	$130,000	$130,000	Nil	0
Account 3	$ 130,000	$50,000	$80,000	66.66
Total	$390,000	$310,000	$80,000	20.51

While the returns have had an effect of increasing his tax-free portion on his third account, the overall impact on all his interests has been a reduction in the tax-free proportion.

Why have more than one separate interest?

■ To take lump sum withdrawals from tax-free amounts before the age of 60.

■ To set up two account-based pensions with a high drawdown from the concessional one (to meet income needs) and a minimum drawdown from the non-concessional one (to reduce tax paid and preserve a death benefit for their beneficiaries).

■ To set up a transition-to-retirement (TTR) pension from the concessional one (to meet income needs) and no drawdown from the non-concessional one (for real estate planning purposes).

■ The concessional contributions might be earmarked for the member's retirement income. The non-concessional contributions may be intended for a longer-term investment strategy.

■ To keep a UK pension transfer separate from other assets until the conditions of release are met.

The implementation of the 'one interest concept' and 'proportioning rule' make these kinds of strategies more difficult.

For example, where a SMSF member has two accumulation and two pension accounts, the member will need three separate tax component treatments:

● first pension account – separate and distinct;

● second pension account – separate and distinct; and

● two accumulation accounts – combined but separate from the two pension accounts.

It is important to understand that although each pension will be treated as separate and distinct interests, and the tax components are also separate, any pensions commenced within a SMSF after July 1, 2007, must have the same proportions as the entire interest from which they originated.

Impact on SMSF members

Clients who have multiple accounts within SMSFs and want to retain some control over their superannuation investments and estate planning goals may in future consider a retail fund to keep separate part of their super funded after June 30, 2007.

It is still unclear whether a number of accounts in the same retail fund count as separate interests. However, separate accounts in separate plans – whether provided by the same trustee or not – count as separate interests. This could be a viable option, particularly if the provider allows fee-linking, so that maintaining multiple accounts does not cost more.

In this instance, retail funds offer more flexibility than SMSFs. The functionality of the leading platforms, together with gradual tightening of the screws on SMSFs, has levelled the playing field and may even tilt it toward retail funds.

It is easy to take an objective view when you provide substantial SMSF funds and have a strong retail fund presence. After all, the choice between self-managed or retail is about the client's needs.

From a technical point of view (and certainly from a financial planner's perspective), it remains clear that we may have 'simpler super' – but it's still not all that simple.

Martin Breckon is the technical marketing manager at Aviva Australia.

The information in Toolbox is intended for financial planner use only. Any advice contained in these articles does not constitute personal financial product advice. Therefore, before making any decision to act or rely on any advice in this document, planners should consider the appropriateness of the advice with regard to their client's particular objectives, financial situation and needs.

News Briefs

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Macquarie Investment Lending launched a number of enhancements to its secure client-service website, GearUp, which makes it even easier for clients and advisers to monitor and manage their facilities online.

Advisers can now simulate a new Macquarie Margin Loan for their clients, including the transfer of an existing margin loan from another lender into a Macquarie Margin Loan. They can also experiment with a range of different portfolio scenarios using real time prices (with a 20-minute delay) and current gearing ratios.

This is in addition to the existing Margin Loan Calculator, which allows an adviser to simulate hypothetical transactions on their client's margin loan and see any potential effects before investing. The tool is intended to help plan transactions in a volatile market and includes simulations to model the effect of bought put and sold call options.

AMP Corporate Superannuation's corporate master trust offer, SignatureSuper, has introduced the SignatureSuper Personal Allocated Pension.

SignatureSuper members who have reached preservation age have the option to transition to retirement through receiving a regular income stream from their superannuation while still working. Additional benefits for members include: choice from a wide range of investment options; access to their investment at any time; and flexibility in how often they receive their pension payments.

Estate planning is also made easier, as the SignatureSuper Personal Allocated Pension is available to beneficiaries of death benefits payable from the SignatureSuper account.

The product is available to any member with a current SignatureSuper account with a minimum investment of $20,000.