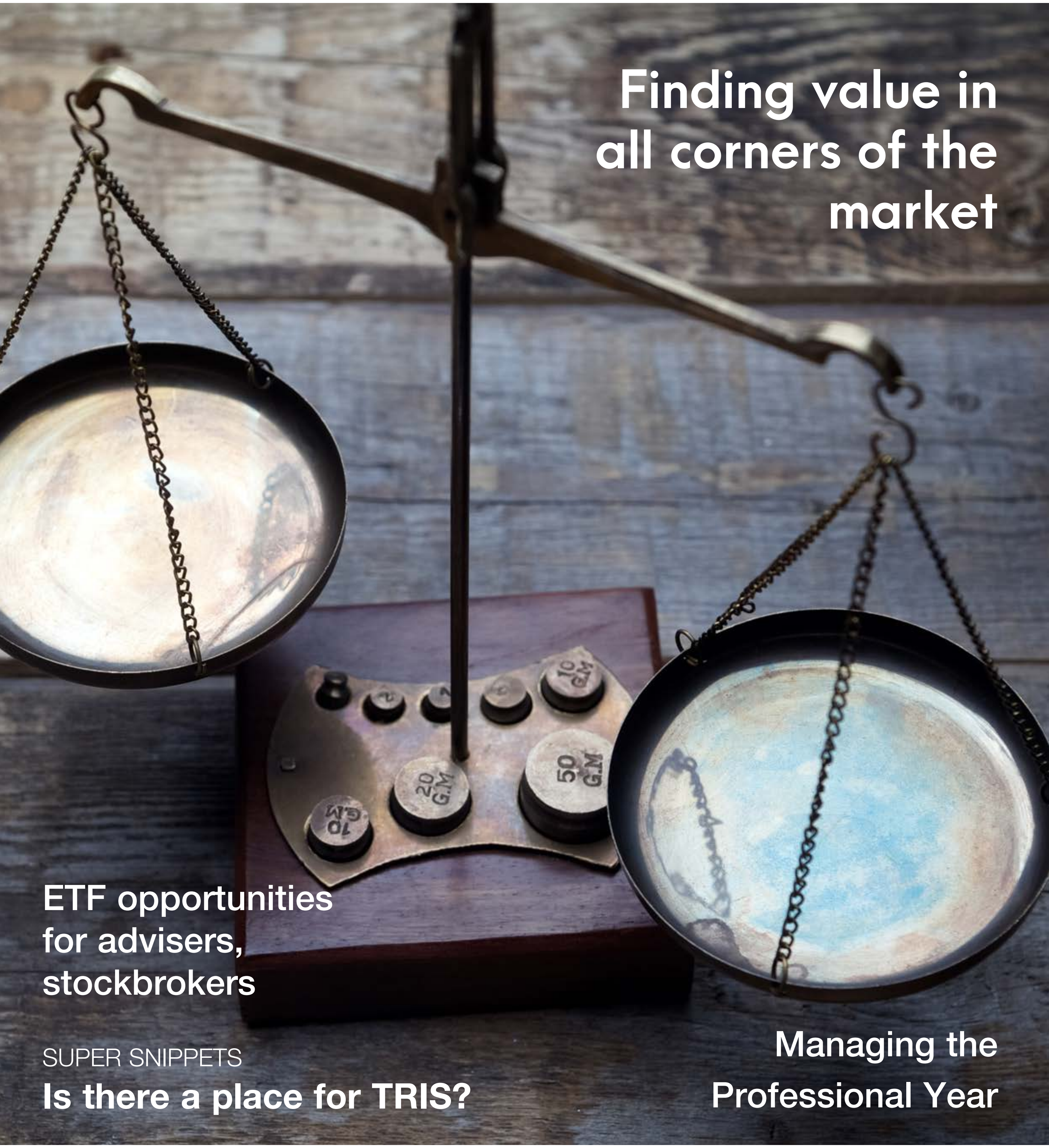
SAFAA MONTHLY

September 2021



Finding value in all corners of the market

ETF opportunities for advisers, stockbrokers

SUPER SNIPPETS

Is there a place for TRIS?

Managing the Professional Year

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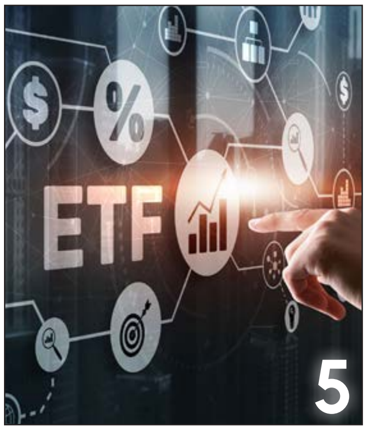

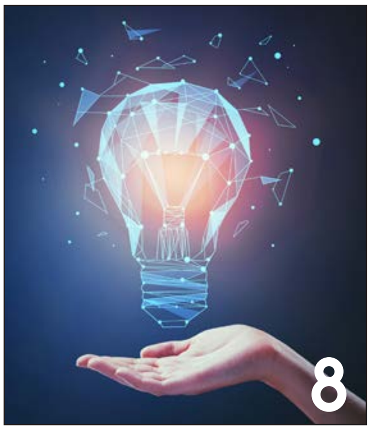

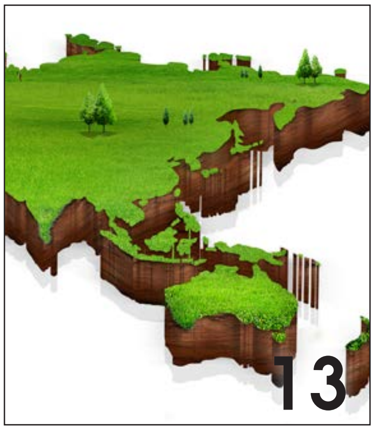

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Summary of independent expert review of November's ASX Trade outage

ASIC, together with the Reserve Bank of Australia (the regulators), has published a summary of an independent expert review of the ASX Trade outage, which occurred in November 2020.

The outage occurred shortly after a major upgrade to ASX's equity trading platform, ASX Trade, called the ASX Trade Refresh Project (the project). The regulators view operational incidents of this nature with significant concern.

The purpose of the independent expert review was to examine the project and assess whether it met internationally recognised standards or frameworks and relevant securities industry practices.

Overall, the independent expert, IBM Australia Limited, found that ASX met or exceeded expected leading industry practices in 58 out of 75 of the capabilities assessed, including:

- business case development and project change management, which exceeded accepted practices
- the project was provided with and had access to sufficient financial, time, people and technological resources at all stages of delivery to meet its objectives
- communications with key stakeholders were appropriately managed
- incident management actions taken by ASX were appropriate.

Significantly, the independent expert identified several key shortcomings in the project including:

- factors that suggested the ASX Trade system was not ready to go live considering ASX's near zero appetite for service disruption. This was the case even though the formal implementation readiness processes were completed and verified by multiple parties without objection to go live
- there were gaps in the rigour applied to the project delivery risk and issue management process expected for a project of this nature
- risk and issue management, project compliance to ASX practices, project requirements and the project test strategy/planning did not meet accepted industry practices. It was not reasonable to expect the test plan used would meet the ASX's near zero risk appetite for service disruption.

The independent expert made recommendations in seven key categories: risk, governance, delivery, requirements, vendor management, testing and incident management.

ASIC will continue to engage with market operators, participants, institutional investors and other stakeholders on the impact of the incident and will work with the industry to identify what, if any, broader market adjustments might be necessary to reduce the impact of any future incidents. ■

Read the media release

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Single Disciplinary Body *Wednesday 8 September | 1.00 to 2.00pm*

SAFAA CEO, Judith Fox and Policy Manager, Michelle Huckel will provide an overview of how the key aspects of the Single Disciplinary Body, expected to come into effect on 1 January 2022, will impact advisers and licensees.

FASEA CPD: 1.00 hour Professionalism and Ethics | RG146: 1.00 Generic Knowledge


Judith Fox


Michelle Huckel

Private wealth management: global trends & future predictions *Wed 22 September | 1.00 to 2.00pm*

It cannot be denied that the past decade has seen significant technological change. Join Michael Blomfield from Iress who will explore the global trends and future predictions for the private wealth industry.

FASEA CPD: 1.00 hour Technical Competence | RG146: 1.00 Generic Knowledge

Discover the income and resilience of real estate debt *Wednesday 29 September | 1.00 to 2.00pm*

Private debt is an established asset class in a low interest rate environment. One of the lesser mentioned defensive assets is commercial real estate (CRE) debt, a subset of the private debt market. Despite COVID-19, CRE debt continues to offer compelling benefits to investors.

FASEA CPD: 1.00 hour Technical competence | RG146: 1.00 Generic knowledge


Nick Bullick


Reuban Sivarajasingham

Value: why this is a long-term play *Wednesday 13 October | 1.00 to 2.00pm*

What has really driven the long-running underperformance of value stocks? Why does Vanguard expect value will outperform growth over the next 5 to 10 years? How can you incorporate the value factor into portfolios?

FASEA CPD: 1.00 hour Technical competence | RG146: 1.00 Specialist knowledge - Securities


Beatrice Yeo


Ian Boater


Matthew Cho

Cybersecurity: managing threats and risks *Wednesday 27 October | 1.00 to 2.00pm*

Shane Bell, a cybersecurity and digital forensic specialist, will provide an overview of the cyber threat and regulatory landscape, followed by detailed discussion on how organisations can set themselves up for cyber resilience and data security.

FASEA CPD: 1.00 hour Regulatory compliance and consumer protection | RG146: 1.00 Generic knowledge

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BY ANDREW CAMPION, ASX

ETF opportunities for advisers, stockbrokers

Innovation in ASX ETF market helping financial advisers grow their business

Much has been written this year about growth in Exchange Traded Funds, as the ASX ETF market celebrates its 20th anniversary.

Less considered is the evolution of ETF investing styles on ASX and what that means for financial advisers and stockbrokers.

Since 2001, the ASX ETF market has expanded to cover all main asset classes. Advisers can use ETFs to construct and maintain a client portfolio across global and local equities, fixed interest, cash, commodities, currencies and alternative assets.

Index-tracking ETFs on ASX have been joined by smart-beta ETFs that enable factor-based investing. Since 2015, active ETFs have emerged, allowing investors to buy and sell managed funds previously only available as unlisted funds.

Continued strong growth in active ETFs is expected as more asset managers make their fund available through an ETF structure on ASX.

This expanded ETF choice – there are 223 ETFs on ASX with $116 billion in assets under management[1] – is solving problems for investors. And creating opportunities for advisers and stockbrokers to benefit from growth in the ASX ETF market.

Here are seven potential ETF opportunities for advisers:

1. Active ETFs

The emergence of active ETFs on ASX is an important development for financial advisers. Index-tracking ETFs have a key role in portfolios, but some investors might resist paying for advice on ETFs that replicate an index.

With active ETFs, advisers can add value by identifying asset managers they believe will outperform their benchmark index, across asset classes. An adviser can potentially generate excess alpha for clients through their ability to choose active ETF managers.

Active ETFs now comprise approximately 20% of the ASX ETF market, as prominent asset managers take advantage of the ETF structure.[2]

2. Core/satellite

Growth in smart-beta and active ETFs is helping advisers implement core/satellite portfolio-construction techniques and rebalance portfolios.

This strategy has two parts. First, including index-tracking ETFs in the portfolio "core" to replicate a market return at low cost. Second, using smart-beta or active ETFs, which an adviser believes can outperform the market, as portfolio "satellites".

The ability to combine smart-beta ETFs, active ETFs and stocks in the active component of a portfolio through ASX is an advantage for advisers. It means client investments are in one place under one Holder Identification Number (HIN), providing transparency and settlement certainty in an efficient, cost-effective process.

3. Portfolio tilts

An emerging trend on ASX is investors using index-tracking ETFs actively to time markets. For example, there were strong fund inflows into local and global technology ETFs after global equity markets fell during the COVID crisis in 2020.

Just over half of investors surveyed in the *ASX Australian Investor Study 2020* changed their portfolio in the three months after March 2020. Almost one in five took advantage of lower asset prices to invest all their spare cash – with younger investors most likely to have made pronounced portfolio changes.

If near-zero interests rates persist, some investors might invest more actively to generate sufficient returns. Heightened market volatility could provide opportunities for advisers to recommend tactical portfolio tilts using ETFs.

4. High-value investors

The ASX study segmented high-value investors as the top 20% of investors by portfolio size and trading value. About 41% of high-value investors have a Self-Managed Superannuation Fund and their median portfolio size is $1.2 million.

A quarter of high-value investors hold ETFs, the ASX study found – higher than the proportion holding Australian Real-Estate Investment Trusts (22%) and Listed Investment Companies (20%). Only 17% of high-value investors hold unlisted managed funds.

The proportion of high-value investors holding ETFs was almost double that of other investors.

Clearly, financial advisers and stockbrokers who target high-value investors need to incorporate ETFs in their advice for this market segment.

Advisers targeting younger clients should also consider ETFs. Next-Generation investors (aged 18 to 24) have embraced ETFs and some are likely to own an ETF before owning a share, the ASX study found.

5. Next Generation

Advisers targeting younger clients should also consider ETFs. Next-Generation investors (aged 18 to 24) have embraced ETFs and some are likely to own an ETF before owning a share, the ASX study found.

About 45% of Next-Generation investors said they planned to invest in ETFs within 12 months. Almost a third of Wealth Accumulators (aged 25 to 59) planned to invest in ETFs in that period.

The ASX study identified 900,000 intending investors[3] with an average age of 34. Women slightly outnumbered men in this category. For many first-time investors, ETFs will become the entry point to ASX.

Anecdotally, younger investors have greater interest in global technology trends. Thematic ETFs have grown on ASX as investors seek exposure to cybersecurity, cloud computing, artificial intelligence and robotics, electric vehicles and video games.

Launched in February 2020, the S&P/ASX All Technology Index, which has 79 ASX-listed constituents, provides diversified exposure to Australian tech companies.

6. ESG

Few global investment trends are more pronounced than responsible investing, which incorporates Environment, Social, Governance (ESG) filters into investment decisions, or uses ethical funds to screen out harmful sectors.

Almost one in five Next-Generation investors identified ethical/ESG considerations among their top investment priorities.

Advisers can use a growing range of ESG ETFs on ASX to incorporate these filters into client portfolios. As ESG ETF choice grows, advisers will likely be able to embed ESG/ethical investing strategies across asset classes.

7. Fees/administration

The attraction of low-cost ETFs has increased in a low-rate environment. With the cash rate at 0.1 per cent[4], every basis point of return counts. Low returns on cash and bonds make it harder for advisers to recommend higher-fee products.

Less administration with ETFs, compared to unlisted managed funds, is another benefit. As compliance costs for advisers and stockbrokers continue to rise, the administrative simplicity of ETFs appeals. ■

Andrew Campion is General Manager, Investment Products, ASX

[1] As at end-July 2021. ASX Investment Products Monthly Update. July 2021.
[2] Based on internal ASX analysis.
[3] Based on Australian Bureau of Statistics (ABS) data 2019. Current intention does not always translate into future action.
[4] RBA cash rate target. August 4, 2021.

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BY JOEL RONCHI, myIntegrity in Practice

Managing the Professional Year

Under the FASEA Standards which came into effect on 1st January 2019, all new entrants to the financial advice industry are required to undertake a Professional Year of a minimum of one-year full-time equivalent comprising 1600 hours, of which at least 100 hours is to be structured training.

It is a requirement of the Corporations Act 2001 that all new industry entrants are required to undertake before they are qualified as a Financial Adviser to provide personal financial advice to retail clients in respect of retail financial products.

To be eligible to enter a Professional Year program, the new entrant must:

- Have passed a FASEA approved degree or higher education qualification, or
- Be in the "final stages" of a FASEA approved degree or higher education qualification, and
- Be registered with FASEA by the licensee.

Why is the Professional Year so important?

For the financial advice to continue to grow and prosper, it must attract new talent to fill the void left by the exit of many thousands of advisers because of the increasing education standards required under the FASEA Standards.

Licensees and existing financial advisers wanting to grow their own staff or offer a career pathway to someone beginning their career, need to ensure they construct the Professional Year program in line with the requirements as set out in:

- Corporations (Work and Training Professional Year Standard) Determination 2018 – Explanatory Statement
- Corporations (Work and Training Professional Year Standard) Determination 2018 – Legislative Instrument
- FPS003 Work & Training Requirement (Professional Year) Policy – March 2019

Setting up a Professional Year

The Professional Year standard specifies a quarterly framework detailing key activities to be undertaken and competencies to be acquired and demonstrated. This approach enables an individual to transition from a directly supervised approach to an indirect supervision approach as follows:

- Quarter 1 – Client Observations and support to Supervisor/ Experienced Adviser
- Quarter 2 – Supervised Client Engagement and Advice Preparation
- Quarter 3 and 4 – Indirect Supervision of Client Engagement and Advice Preparation

Quarters 1 and 2 involves the direct supervision of the new entrant by the designated Supervisor. Quarters 3 and 4 are when the new entrant is registered as a provisional financial adviser and provides advice to retail clients under indirect supervision.

At all stages through the Professional Year, retail clients must be notified in writing that the new entrant is undertaking their professional year, and that the supervisor is, ultimately, legally responsible for all the advice provided to the client. The supervisor must sign off, in writing, every SOA to be presented by the provisional financial adviser.

Passing the Exam – something easily overlooked

Licensees must ensure anyone who undertakes the Professional Year successfully passes the national FASEA Exam by the end of Quarter 2. The new entrant cannot proceed to Quarter 3, and the provisional status, until they have passed the exam.

This means licensees and supervisors must map out timelines in the Professional Year plan, which is developed in writing at the program's commencement, detailing when the new entrant will sit the FASEA Exam. Licensees should be mindful to build in a "buffer" should the new entrant not successfully pass the exam on the first sitting.

Some new entrants may be fresh university graduates who feel ready to sit the exam almost immediately. However, the FASEA Exam is often different to those they may have sat in university, and this can lead to the first attempt not being successful. With the current requirement to wait at least three months to sit another exam, this can lead to the 12-month program being extended for a few months more.

For those commencing the Professional Year whilst still in the "final stages" of an approved FASEA qualification, licensees need to ensure they have completed the FASEA approved qualification before being able to register to sit the FASEA exam.

Can the Professional Year be "accelerated"?

A licensee can authorise the acceleration of anyone undertaking their Professional Year for quarter 1 or 2 if the supervisor is satisfied that the person:

- has achieved the outcomes set out in the Professional Year plan for the quarter; and
- is capable of satisfactorily completing the work activities and structured training for the next quarter.

An example may be where someone has several years' experience as a paraplanner.

An accelerated pathway cannot be offered for quarters 3 or 4, and the person will still be required to pass the FASEA Exam before commencing quarter 3 of the program.

Record keeping

The licensee and supervisor must maintain and retain accurate records of all relevant documents such as the logbook, certificates issued, evidence of structured training, evidence of retail clients being notified under the Professional Year obligations etc.

These records must be kept, by the licensee, for a period of at least seven years.

Completing the Professional Year

The provisional financial adviser completes the Professional Year upon successful completion of the requirements of all four quarters, passing the FASEA Exam, and satisfying the supervisor and licensee that they have demonstrated the competencies required to act as "full" financial adviser.

The supervisor and licensee must audit at least five client files the Professional Year graduate has worked on, before being able to issue the Final Certificate of Completion. ■

BY ALISON SAVAS, Antipodes

Finding value in all corners of the market

A traditional approach to value investing can rely on owning low-multiple stocks expecting mean reversion to generate long-term alpha.

In our view, this is a flawed approach because you risk getting stuck with value traps - or businesses at risk of being disrupted in a world that's changing so quickly.

When taking a pragmatic approach to value, value can be found right across the market spectrum – even in big tech – by identifying resilient businesses that are cheap relative to their growth profile and cheap relative to their peers.

Big value in big tech

When we look at two of the biggest tech names in the world, Facebook and Microsoft, we find two inexpensive businesses offering pragmatic value (both are top five holdings in Antipodes global portfolios).

For Microsoft, it's growing earnings at 15%+ p.a. with a high degree of confidence around that earnings growth.

Despite this, it's currently valued at 27x calendar 2023 earnings - a 40% discount to its direct peer group. It's cheap relative to its growth profile, and it's cheap relative to smaller, single feature peers.

It's a stock we've held since inception, but we think Microsoft remains a compelling investment.

It has a huge R&D budget for product development – around $20b p.a - which dwarfs that of start-ups. When it comes to product innovation, there are seemingly no boundaries.

And it maintains an unrivalled ability to bundle and cross sell those products across a very large customer base.

An Office 365 subscriber pays, on average, just $15/month. If you tried replicating your Office bundle by downloading a bunch of applications such as Zoom, Slack and others, it would easily cost in excess of $100/month. This makes Microsoft hard to disrupt and this pricing umbrella gives the company scope to lift its prices. We can see the average subscription price doubling over the next decade.

Microsoft's Cloud Infrastructure business, Azure, also offers a significant embedded growth opportunity. Growth in cloud is shifting away from start-ups to being driven by the traditional enterprise – the customer group Microsoft has the lock over.

Azure is growing at 45% p.a. – which is pretty amazing for a business that's 30b in revenue – and it's growing faster than Amazon Web Services' 35% p.a.

Similarly, Facebook is a company compounding its earnings at 20% p.a. and we're only paying 20x for those earnings.

The Facebook group has 3.5b monthly active users. Four of the top seven most downloaded apps globally over the last year were Instagram, Messenger, What'sApp and Facebook – which is remarkable given how dynamic social media is. It's no wonder Facebook continues to take share of advertising dollars. And remember the company is still only monetising core Facebook and Instagram.

The power of Facebook and Instagram as advertising platforms is they are equally valuable to the biggest brands and the smallest, unique brands. This is important given the shift in online consumption – which is less about buying what we know to buying what we discover, and it's influenced by social media.

Facebook and Instagram are in the box seat.

Overlooked tech giants

While the quality of Facebook and Microsoft isn't lost on the market, the attractiveness of other big tech stocks can occasionally fly under the radar.

A software giant that we think is currently being overlooked by the market is Oracle Corporation.

It's a US multinational platform company that's taking share in cloud ERP (enterprise resource planning) – and the market is just beginning to notice.

Transitioning from an on-premise ERP product to a subscription-based service not only doubles the value of an Oracle customer over the life of the contract it also significantly increases Oracle's potential customer base, as it's much more affordable to smaller enterprises. Further, Oracle's on-premise database business continues to grow and over time Oracle will convert customers to its cloud solution.

With Cloud ERP now growing more than 40% yoy, we're reaching an inflection point. We see Oracle's earnings growing at high single digits and it's valued at just 19x earnings, plus it's buying back stock.

Uncovering disruption across the market spectrum

Microsoft, Facebook and Oracle are great examples of pragmatic value; market leaders that are cheap relative to their growth profile and are not under the threat of disruption.

But disruption is not limited to the tech sector. It can be found through the market spectrum.

Retail is a great example, consider Amazon and Tesco.

Prior to COVID, e-commerce was around 15% of retail sales in the US and it quickly shot up to 22% thanks to lockdown.

Amazon has been the winner, with almost 40% of the US e-commerce market. This equates to almost 10% of total US retail sales - Amazon is almost the same size of America's largest retailer Walmart (14% share) but with no physical stores.

Amazon's dominance in e-commerce primarily comes down to the investments it's made in logistics and improving price and breadth of choice for customers.

With a low threshold for free delivery and same day/one day delivery across almost 20% of the US population (and growing), Amazon sets the bar very high for online peers. We expect the company can continue to take share.

On top of this unassailable lead in e-commerce, the Cloud infrastructure business - Amazon Web Services - is still growing at 30%+ p.a. Here we have the largest player in two mega trends with earnings growing more than 30% p.a and valued at 23x core 2023 PE.

At the other end of the new retail spectrum there's UK retailer, Tesco.

While better known for its physical supermarkets, Tesco is not new to online - Tesco.com was launched in 2000.

Tesco's 30% share of online grocery is greater than its in-store share – so Tesco's a market share winner as consumers transition online. It has unrivalled coverage of almost the entire UK and Ireland, and the UK is much more densely populated than the US, which is key to running a profitable online business.

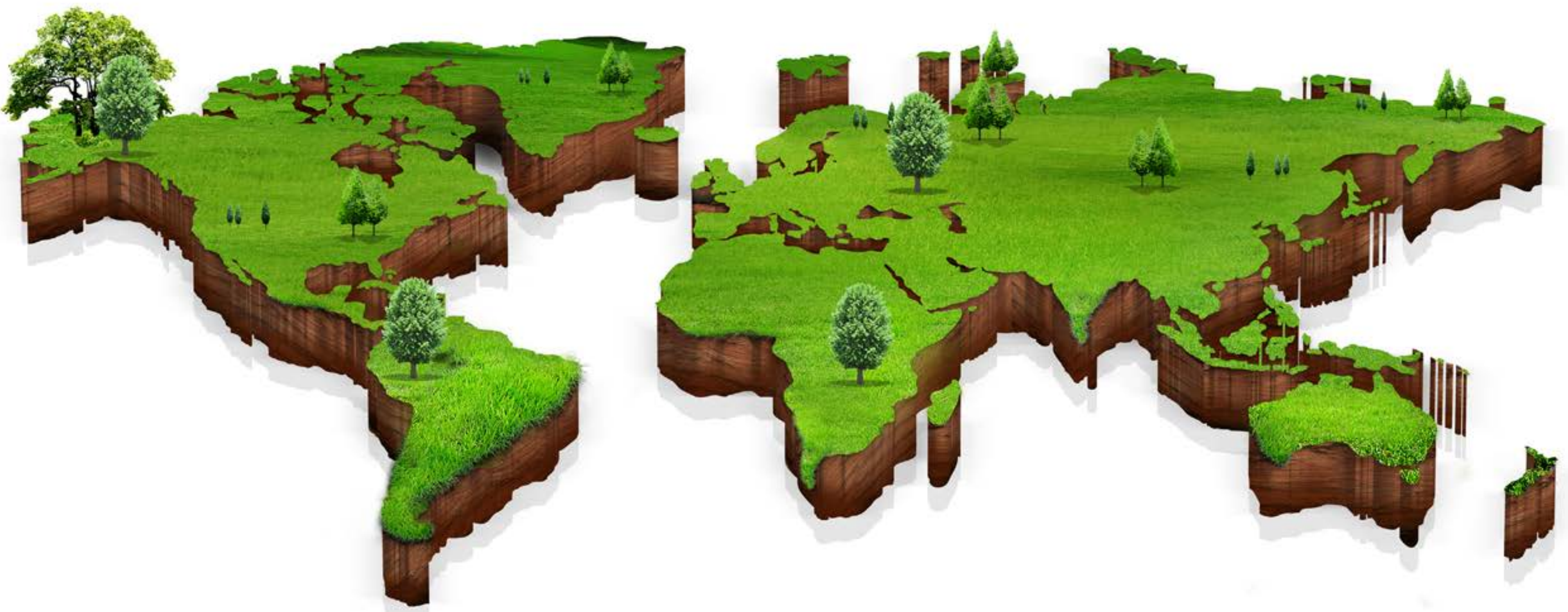
Much like Walmart, Tesco is leaning on existing store assets – investing in fulfillment centres attached to large stores and using existing stores to fulfill online orders.

At 11x earnings Tesco is not priced for success in a digital world. It's valued at less than half the multiple of other global leaders like Walmart and Woolworths.

Amazon – a new-world tech giant – and Tesco – a traditional retailer misunderstood by the market – are both winners from digital change and represent value for their growth profile.

Both have a place in a pragmatic value portfolio. ■

BY PAUL MILLAR & PABLO BERRUTTI, ALTIOREM



ESTABLISHING SUSTAINABLE FINANCE:

Comparing emerging markets and Australia

As efforts are made to establish sustainable finance globally, a look at progress made in emerging markets and Australia shows certain features that may help investors better assess their financial services investments. In October 2019, the Sustainable Banking Network ('the SBN') and the International Finance Corporation ('the IFC') released a report on progress made in emerging markets to advance sustainable finance.[1] The SBN comprises financial sector regulators and banking associations in 38 member countries who have committed to advancing sustainable finance in line with international best practice. The SBN was created with the assistance of the IFC, part of the World Bank Group, in its work to introduce environmental, social and governance ('ESG') standards in developing countries. Due to weaker regulation and enforcement, ESG risks are acute in these countries and it is crucial for regulators and financial institutions to understand the financial implications of those risks.

To measure the progress made by member countries in advancing sustainable finance, the SBN devised a framework based on its members' practical experiences. The framework is made up of indicators and underlying questions that the SBN believes to be the key components of a national sustainable finance framework and its implementation. Overall, the SBN found that members are taking increasing steps to advance sustainable finance. In particular, the number of members with sustainable finance frameworks and those members moving to implement them has increased. A feature of this progress is peer to peer knowledge sharing among members.

More specifically, members are aligning their frameworks with global standards such as the UN Sustainable Development Goals and the Paris Agreement. More members have developed definitions and guidelines for green financial assets and aligned with the Green Bond Principles and the Climate Bonds Initiative. This facilitates the flow of capital to that sector in emerging markets, but members need to work on how to promote consistency and credibility in those products.

The majority of members are developing guidelines that set expectations for how financial institutions manage ESG risks, including provision for reporting by those institutions, third party verification of that data being increasingly encouraged. However, private sector financial institutions in most member countries have not yet shown comprehensive behaviour change towards sustainable finance. For this, members need to do more to improve their financial institutions' limited understanding of ESG issues. They need to establish more robust reporting and monitoring frameworks for financial institutions that require transparency on ESG factors. Overall, sustainable finance needs to be the central focus of supervision by financial regulators.

When examining the state of sustainable finance in Australia, similar themes emerge. The Australian Sustainable Finance Initiative ('ASFI') is a multi-stakeholder initiative which has produced an 'Australian Sustainable Finance Roadmap' and, in December 2019, a progress report. According to the ASFI, although sustainable finance markets in Australia are experiencing rapid growth, the financial sector faces challenges in responding to the risks and opportunities posed by ESG issues.

First, within the financial sector, there is a lack of appropriate skills and understanding of ESG related risks and opportunities. ESG issues are often undervalued, considered through a short-term horizon or excluded from decision making. The sector needs accurate and timely information to properly value ESG issues, but there is a lack of quality standardised data that enables comparability and consistent valuation. Sustainability reporting, along with assurance on those reports, remains voluntary, resulting in concerns over veracity and a lack of comprehensiveness and consistency. Similarly, while new sets of frameworks, tools and standards are rapidly emerging, they also suffer from a lack of consistency in their content, adequacy and use, all of which inhibits comparability and makes it difficult for investors to integrate ESG issues.

There has been growth in the development of sustainability bond markets and expansion in the range of sustainability-related financial instruments in Australia. However, there is a need for proper definitions of what constitutes a sustainable investment or product. The absence of such definitions inhibits capital flowing to sustainable outcomes. For this, Australia needs a sustainable finance taxonomy comprising a body of common definitions for sustainable investment aligned with the Paris Agreement and the UN Sustainable Development Goals.

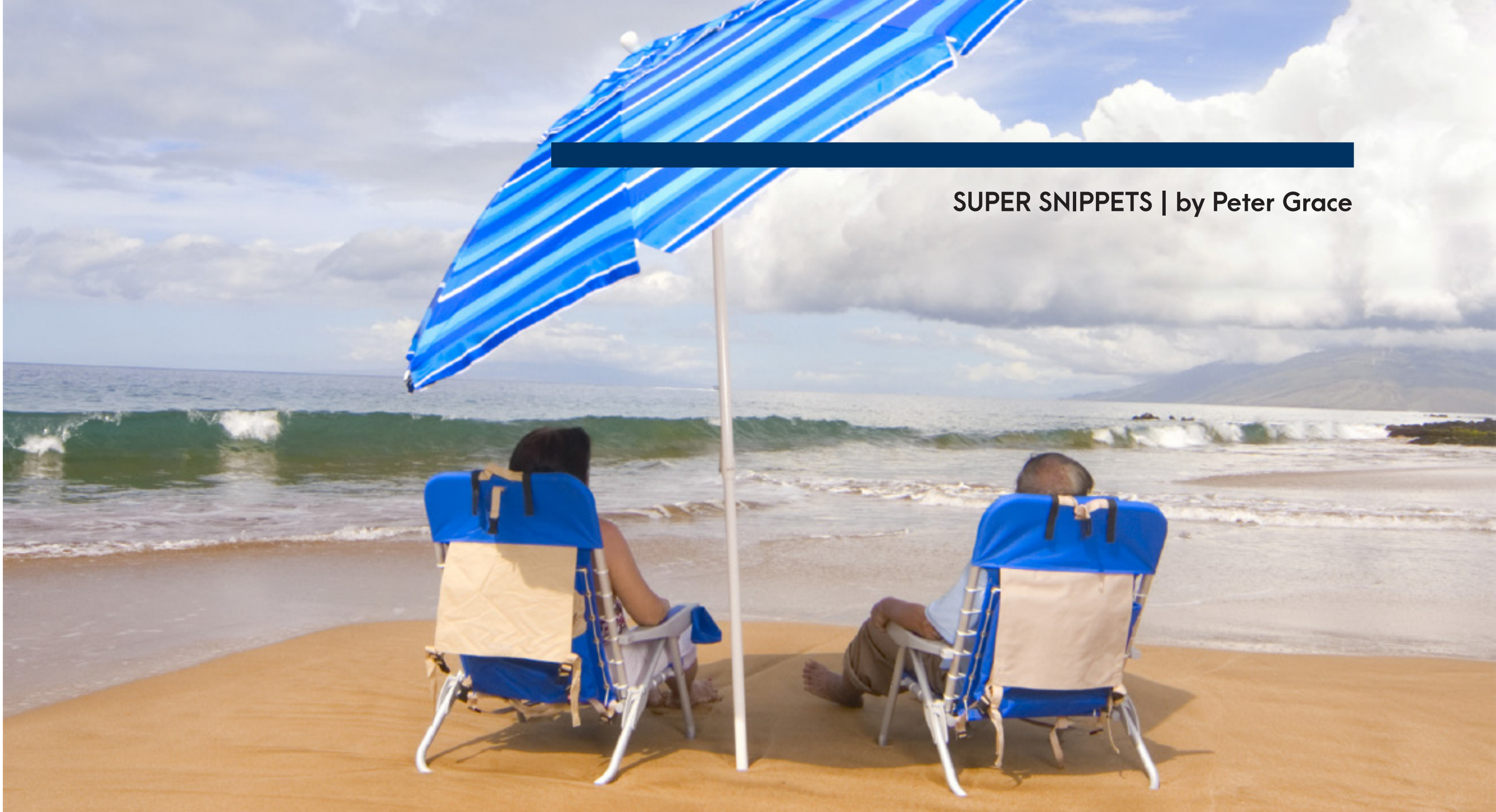
To address all of these challenges, leadership is needed, particularly from Australian financial regulators. Although Australian regulators have not introduced a national sustainable finance framework, they have undertaken a range of focused initiatives that progress with integrating ESG considerations into their supervisory frameworks, requirements and guidance. The Australian Prudential Regulation Authority has issued guidance on climate change. Even so, there remains a lack of guidance around how social and environment risks, outside of climate related risks, should be prioritised.

The state of sustainable finance in emerging markets and Australia shows similar features. A low awareness of ESG issues within the financial sector exists with the difficulty in obtaining reliable information and methods to consider those issues. Along with the need for adequate sustainability-related reporting, all of these challenges require regulators to lead through collaboration and the provision of guidance and regulation.

These developments present an opportunity for financial services firms to open new markets, improve loan or asset quality and improve their reputations. However, investors should assess the relevant policies of these firms, their progress with green finance, their exposure to ESG risks and how they support their customers in managing them. For Australian banks this is particularly important for agriculture and retail mortgages which face risks from more intense storms, floods, drought and heat. Should financial services firms fall behind on these issues they risk being at a competitive disadvantage and attracting the attention of regulators.

First, within the financial sector, there is a lack of appropriate skills and understanding of ESG related risks and opportunities. ESG issues are often undervalued, considered through a short-term horizon or excluded from decision making.

[1] The report and a research summary of its contents prepared by Altiorem can be found at: http://altiorem.org/reseach/global-progress-…ets-october-2019/



Is there a place for a TRIS?

Transition to Retirement Income Streams were introduced in 2007 as a way for pre-retirees to move into retirement without having to quit work entirely. Previously, to access superannuation before age 65, you would need to resign from your job.

A TRIS is an Account Based Pension but different from a retirement ABP. Once the member had reached preservation age, they could withdraw between 4% and 10% of the account balance each year as an income stream. Until 2017, they were taxed like a retirement ABP - no tax payable on the assets backing the pension and, from age 60, the income was tax-free.

Some advisers used the TRIS product as a tax strategy to boost account balances leading up to retirement. A pre-retiree would salary sacrifice to the maximum extent to reduce PAYG tax on their earned income. They would use the income from a TRIS to top up their cash flow and this income would be either taxed concessionally or be tax-free.

Changes in superannuation rules meant this tax driven strategy became progressively less attractive.

- Over the years, the caps on salary sacrifice contributions were reduced.
- From 2017, TRIS accounts were taxed like superannuation accounts. This meant that income earned on the assets backing the pension were taxed at 15%.

So, what value does a TRIS have today?

A pre-retiree can start a TRIS from age 60, the current preservation age. The income from the TRIS will be tax free. At age 65, a TRIS will automatically become a retirement ABP – there will be no upper limit on the amount that can be withdrawn from the account and there will be no tax payable on the assets backing the pension.

A TRIS could still be useful in satisfying the following needs in the five-year window between age 60 and 65.

- The original purpose of a TRIS still applies. A pre-retiree may want to slow down a bit by working 4 days a week or in a lower paid, less stressful role. If their earned income was lower, the income from a TRIS could be used to maintain their required cash flow.
- Many pre-retirees want to retire debt-free. To drive down a mortgage or other significant debt in the years up to quitting work, it may be useful to boost repayments using income from a TRIS.
- A couple may want to balance up their accounts. The member of a couple with the higher balance, could start a TRIS and use the income to make non-concessional contributions to their partner's account.
- A pre-retiree may have a need for extra income without having to retire. For instance, they may want to keep a business afloat, support their children or pay care fees for frail parents.

A TRIS is just another tool in an adviser's superannuation tool kit.

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