$1.6m super, forget rest

Researcher pans proposed savings overhaul

KARINA BARRYMORE
SUPERANNUATION

A MAXIMUM superannuation pension balance of $1.6 million is "more than enough", SuperRatings says, however the research company has attacked the federal government's other proposed changes.

In a report analysing the three major changes proposed for super laws, SuperRatings will today call on the government to immediately abandon its plan to backdate tax-paid contributions.

It has also described the $25,000 limit on pre-tax contributions as "ludicrous".

However, the report finds a $1.6 million limit on super fund balances still allows a couple to have savings of $5.3 million — $2.7 million for an individual — before paying any tax on investment returns.

That is because — in addition to tax-free income from their $1.6 million each in pension phase super funds — retirees can also earn $58,000 as a couple or $32,000 as a single person, tax free from any other source under existing laws.

SuperRatings chairman Jeff Bresnahan said: "An Australian couple with $3 million super and $2 million in cash will not be liable to pay one cent in tax. Similarly, an individual with $1.6 million in super and $1.1 million in cash will also not be liable for tax."

However, the research company called for the government to abandon its plans to backdate tax-paid contributions.

The government has proposed a limit of $500,000 on tax-paid contributions backdated to include all contributions made during the past nine years.

Mr Bresnahan said: "It would be the first ever retrospective legislative change introduced into the superannuation industry.

"This precedent could quite rightly mean that nothing is sacred going forward."

He said it would be "hypocritical" and "naive" for the government to keep the backdating proposal but tinker with it — as has been speculated — by allowing exemptions for inheritances or divorce settlements. The proposal should be abandoned, he said.

The third major change, to limit before-tax contributions to $25,000 was "ludicrous", he said. "To limit [people's] ability to reach an acceptable level of savings is ludicrous."

karina.barrymore@news.com.au

Music to stop as Guvera pulls out

LIAM WALSH
MEDIA

MUSIC streaming service Guvera is pulling out of the Australian market, where only a month ago it was boasting of strong growth.

It marks the latest upheaval for the Gold Coast-based business, which controversially raised $185 million from investors as an unlisted company on the back of an advertisement-driven revenue model.

The group has told shareholders in a memo that "unfortunately, the time has come for Guvera to withdraw from the Australian market".

"This will come into effect in the following week," the memo says.

A company spokesman confirmed the plan to *Business Daily* yesterday morning.

Guvera has been in financial strife, revealing in a prospectus last month that it had been struggling to repay creditors at the end of last year.

Then, after its attempt to list on the Australian Securities Exchange was blocked, it put two subsidiaries into administration, owing almost $18 million, and axed almost 70 staff.

Then the company had hoped to raise $20 million from existing investors. Guvera has not revealed details about the success of its latest capital raising bid.

The company, which was started in 2008, has now pulled out of several markets including the US and Russia.

In the memo to investors, the group said its Australian exit was linked to changes in its product and a "strategic re-evaluation of the business".

"We have decided that in order to achieve sustainable and long-term goals, we will focus all efforts in key emerging countries, such as India and Indonesia," it said.

The company confirmed Darren Herft had stepped down as chief executive.

He is being replaced in that role on an interim basis by co-founder Claes Loberg, who had "temporarily relocated to Indonesia and India to work closely with several key partners".

Last month, Guvera said it had 1.4 million registered users in Australia and almost 280,000 active monthly users.

Claes Loberg, left, with the man he is replacing as chief executive, Darren Herft.

ARRIUM'S IMPASSE

WAGES

ARRIUM workers in South Australia and the company's administrators remain at odds over a proposed pay cut.

Representatives from the Australian Workers' Union and administrators KordaMentha held fresh negotiations yesterday but were unable to reach an agreement.

KordaMentha had proposed a three-year pay reduction for workers across Arrium's mining and steelworks operations in Whyalla which would include a 2 per cent increase in the final year.

The union put forward a counter-offer of a 7.5 per cent pay cut which would also pare back overtime entitlements.

With Arrium's restructure and sale expected to be finalised by the end of the year, both parties are thought to be keen to resolve the deadlock when talks resume today.

Arrium was placed in administration in April after negotiations with its lenders failed amid sustained low commodity prices.

More is less when liquid assets struggle on low rates

THE SHORT CUT
with ANDREW MACKEN

HERE'S the deal: you lend me $100. I pay you back $100 in the year 2066 with no interest in between.

Does that sound fair? Would you take that deal?

Well that's what the Swiss Government is currently offering — and many investors are taking it.

We are living in a very strange financial world where, upon last check, there were $US15 trillion in negative yielding government bonds out there; and $US30 trillion yielding less than 1 per cent a year.

Even in Australia, the Federal Government will pay you less than 2 per cent each year if you are OK with not being repaid your money until 2026. This is the lowest rate on record.

Much of the commentary on this subject has been around the impact of low interest rates on savers and retirees around the world.

And it is upon these groups that low rates have the largest impacts and future social consequences.

But it is also worth considering whether low rates will impact the earnings of businesses — which are particularly relevant for stock market investors.

Similar to individuals, low interest rates, in effect, favour businesses that borrow and penalise businesses that hold cash.

For those holding too much cash, many will use the low interest rate environment to borrow cheaply and pay dividends or buy back stock.

This is likely one of the reasons Australian and global equity markets have remained buoyant of late.

But not all businesses can do this. Indeed, some businesses, such as banks and insurance companies, are required by regulators to hold a significant amount of cash or highly-liquid assets on their balance sheets.

Take Challenger (CGF), for example. About one fifth of its profit margin in its annuities business stems from interest generated on shareholder funds.

As rates decline, so too will this return. Fortunately for shareholders, however, Challenger is such a high quality business it can likely maintain its profitability through other means.

What about QBE Insurance (QBE)? This business is highly exposed to interest rates, both in Australia and abroad.

Last year, of the nearly $US1 billion the company generated in pre-tax profit, nearly half stemmed from income on fixed income securities, short-term money and cash.

Declining rates create a significant headwind for QBE and it remains to be seen if the business can offset this in other ways.

Australia's banks face a similar issue. Consider the Commonwealth Bank (CBA) — arguably Australia's highest quality bank. Of its $60 billion in shareholders' equity, at least half is held in cash and liquid assets.

As rates on risk-free assets approach zero (and turn negative), this creates an earnings headwind on these liquid assets held by CBA at the very least.

The above examples illustrate how the new low-rate world we find ourselves in can have real impacts on company profitability.

So does this mean stock prices of these sorts of businesses will decline?

Not necessarily.

You see a stock price is crudely considered to be the product of a company's earnings per share and a valuation multiple, such as a price-to-earnings ratio.

While it may well be that earnings per share takes a hit for some companies that are required to hold excess levels of cash, valuation multiples typically move inversely to interest rates.

The lower rates go, the higher valuation multiples tend to move.

This effect could more than offset the former impact of lower earnings.

Investing has always been a challenging proposition. It has now become much more difficult.

ANDREW MACKEN IS PORTFOLIO MANAGER, MONTGOMERY GLOBAL INVESTMENT MANAGEMENT
@amacken