SMSFs – Have they plateaued?

While SMSFs remain an important part of the superannuation landscape, growth of the sector has slowed. However, what has not slowed are the changes, and **Jassmyn Goh** reports on what is shifting the dynamic of the sector.

While self-managed superannuation funds (SMSFs) seem to be a creature of habit in terms of growth trends, the sector is facing a multitude of change.

The sector reached $571.8 billion in assets in June 2015, according to the Australian Taxation Office (ATO), a slight drop from the quarter before.

This was possibly due to the drop in the establishment of new funds, 6,700 in June and 7,876 in March, and 283 wind-ups in the quarter – seven more than the previous quarter.

By the end of June 2015, Australian Prudential Regulation Authority (APRA) regulated super fund assets sat at $1.33 trillion, according to APRA statistics.

The SMSF Academy managing director, Aaron Dunn, said though SMSF growth has slowed a bit in the last couple of years, it is what has typically happened over the last 15 years.

"There are spikes that occur off the back of poor market performance and so previously, there's a thought tendency that was: 'If markets are bad, why should I pay people money to look after it?'," he said.

"In 2008, there was a spike in the number of funds that were set up that year, so part of it's to do with the growth or decline in annual rates and is a function of investment performance. It's also impacted by regulatory change, like the Simpler Super reforms."

Aaron Dunn

Dunn said when there were a couple of good years of investment performance, SMSFs plateaued out in terms of any growth, due to the mentality of, 'if it's not broken, there's no need to fix it' when it comes to super.

"I don't think we're going to see any large jumps in moving from 30,000 to 35,000 establishments a year to 50,000, or this concept of 'will it retain growth at six or seven per cent a year?'," Dunn said.

"The numbers will naturally be in the 30,000 to 40,000 year-on-year mark, with any change in legislation maybe taking it towards the top

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end, and with everything ticking along quite well investment wise and regulation wise, it's probably going to be at the lower end of the 30 as well. So, I don't see any material change and that's pretty much been consistent for a decade or so now."

According to Investment Trends, the main reason for establishing an SMSF was to have more control of investments.

However, "poor super fund performance" reasons had dropped dramatically (8,000 fewer people) in 2014 and 2015, from the previous two years.

Australian Institute of Superannuation Trustees (AIST) chief executive, Tom Garcia, said the industry funds were doing well with member communication.

"The money flowing out to SMSFs is certainly plateauing, if not reducing, so the not-for-profits are growing the fastest now, but it used to be for many, many years the SMSF sector. So, the volume of money moving out to SMSFs is slowing," Garcia said.

"So, the not-for-profit funds are doing something right in providing good communication and the delivery of retirement income products, and they're only going to get better at it for people when they retire. That is a function of these funds getting in contact with members much earlier in the piece."

Garcia noted that industry funds were not necessarily worried about SMSFs.

"They're part of the landscape. They realise it is competition. Some of them even work with someone who wants an SMSF but still stays in contact. So, there's still an element of having chosen to start with an SMSF, maybe you'd like to invest part of your SMSF back into our pooled structure and buy one of our pre-existing options, or utilise that for your SMSF investment," he said.

"So, there are different ways they are looking to still engage with the member instead of discarding them, so to speak, or letting them go. Some of the time they will maybe want to come back and keep the relationship."

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>
> – Aaron Dunn

Times are changin'

Like many things, engagement with SMSFs is getting younger and younger, with more people under 45 looking to start an SMSF.

"Things that are changing are the dynamic of the age group coming into the sector. We are now seeing one-in-four under 45s looking at SMSFs. The other interesting thing is around 40 per cent of members of SMSFs are drawing pensions as well," Dunn said.

He added that as those in their late 30s and 40s have been under the compulsory super regime their whole lives, their capacity to be thinking about SMSFs has the potential to be pushed forward.

"Recently, there has been the strategy to borrow within a fund. That has been an attraction for that group because we can take a 25 year timeframe on those sorts of strategies, rather than thinking about it as a strategy for the next five years. There's a whole range of levers that are supporting why those younger people are becoming more engaged at an earlier age," he said.

Dunn also said as the age group would have more in their account balance than the previous generation at their age, it was more justification to start earlier.

According to the SMSF Association's 2015 SMSF report, 72.1 per cent of advisers said they have experienced an increase in demand for SMSF services from 41 to 50-year-old clients.

It said in 2014, those in the 35 to 44 and 45 to 54 age brackets, made up 62.4 per cent of SMSF establishments.

"In the last two years, close to two thirds (65.7 per cent) of advisers have seen a growing demand from 31 to 40-year-olds, while more than one in five (21.7 per cent) have experienced an increase in demand from 20 to 30-year-olds," the report said.

Dunn said SMSFs now have a more broader appeal than just worrying about individuals on a higher income.

"If you've got high income earners, they're going to be looking at the same things that others are going to be looking at, like how much they want to put in super, and the ability to put large amounts into super. So, they are looking at other structures just as much as they're looking at super generally," he said.

"I think there's certainly going to be an appetite for those with larger income brackets. But now, SMSFs are starting to become more mainstream in terms of the type of trustees that might get attracted to it as well."

SMSF Association's chief executive, Andrea Slattery said account balances were a secondary issue to establishing an SMSF.

"The main issue is whether or not an SMSF is right for you financially or part of your business or family circumstances. To have something you can build for the next 40 to 60 to 80 years means it's part and parcel of your plan to develop and grow efficiencies," she said.

"The $200,000 minimum balance that ASIC [Australian Securities and Investments Commission] recently talked about is, if you've got less than $200,000, then you should be making sure if it's right for you and to have a good look at it.

"What you need to take into account regardless of what ASIC suggests is to have competent advice, an understanding of what you're doing, making engaged decisions about when you're starting, and how you're going about it."

Dunn noted that there might be a change in the demographics of gender where females may go past males in terms of SMSF membership.

"When you look at the membership profile there are 52:48 male to female, but over time the percentage has been narrowing over the journey. Maybe because of longevity. We may see in the not too distant future females being a larger representation than males in the SMSF sector," he said.

Embracing technology

With a new generation entering the SMSF space and technology capabilities changing the dynamic of the sector, providers will have to make decisions around technology and delivery of services.

"A fifth of SMSFs are using cloud tech and tech that's starting to redefine the way businesses are looking at offering services to existing trustees," Dunn said.

"The technical stuff is going through the motions at the moment, while we wait for government to give guidance."

Dunn said around 60 per cent of all SMSFs are being set up by 10 per cent of the service industry.

"With the pace of change that's happening at the front-end of the industry in terms of administration, we're already starting to see some real gaps between those at the forefront and those in general practice who are offering SMSFs as part of a broader strategy, because they're not taking on board the tech and efficiency gains," he said.

"We've also been able to see from our survey results that businesses that are three years into that tech footprint are now getting efficiency gains greater than 40 per cent a year. So, the way in which they price their services and deliver their services is certainly changing."

Dunn noted the challenge for providers who do not embrace technology will be on how competitive or relevant they will become to existing and potential clients.

"If you don't take on board and be conscious of the efficiency gains and how that might influence pricing, you'll find yourself struggling to remain competitive in that landscape," he said.

"It's going to need to have certain businesses look at the way they offer services, and not to say they'll be irrelevant, but if they don't respond to these changes, then they will find it more difficult going into the future."

Tax accountants, H&R Block recently set up its SMSF administration division using cloud technology.

H&R Block director of tax communications, Mark Chapman, said their investment in tech allows their clients to access their fund more efficiently.

"Our clients can instantly see how their investments are performing and tweak their investments, rather than passing instructions onto someone sitting in an office," Chapman said.

"It's a much more instant solution, more high tech, much easier to use, and more responsive for clients."

Licence to SMSF

Another reason H&R Block entered the space was its prediction that there would be a mass exodus of many accounting firms from the sector.

"The admin space is an area we're looking to capitalise on by increasing awareness of a specialised area," Chapman said.

"A lot of smaller accounting practices are looking to leave the SMSF space and we're looking to capitalise on that."

From 1 July 2016, accountants wanting to provide SMSF advice will need to hold either a limited, or full Australian Financial Services Licence (AFSL).

AMP head of policy and technical for SMSF, Peter Burgess believes that this is currently the biggest issue for the sector, as accountants are running out of time to apply for either licence.

"It seems a lot of accountants are yet to make their move. What we'll find is that accountants will need to think about their business models if they want to be compliant," Burgess said.

"When you're talking to high-net-worth clients, it's around asset protection and what type of strategies to protect assets. If you can't recommend them an SMSF, then you're limited in the advice you can provide."

Slattery also said there were a lot of accountants who had not applied for an AFSL.

"People need to commit to the rules and so at the moment, we've got only a number of accountants who have the exemption. A significant number of our members who are accountants have committed to the licensing regime since early 2004," she said.

"There's a lot of people who haven't committed yet and unless they meet the rules to engage and advise and service SMSF trustees,

Andrea Slattery

then they won't be able to provide that advice for those services. They need to be aware it takes a number of months to go through the process and to achieve the status to provide advice from 1 July.

"There are many accountants who have full licences and part licences that are servicing SMSF trustees efficiently, as well as competently. I think that as soon as people realise this efficiency and the high quality of service, the better off the industry will be."

Dunn said while the regime change would not impact the number of funds established, the advice given would need to be more thought out.

"I think the way in which the advice is provided going forward will be more robust, and coming with an advice document it means those that are coming into it are better aware of the roles and responsibilities, risks, benefits and so forth of SMSFs," he said.

"One of the things we've seen is the fact that more financial planners are actively involved in the establishment of funds, not only for advice but also for setting it up.

"There might be a period of time when accountants will have their training wheels up and this might initially impact the timeframe of when the funds are set up. But by and large, we won't see any major change one way or the other."

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