Submission to the Financial System Inquiry

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Why we are doing this: The need to encourage people to engage with their super

Two recent investigations in the Super Industry - the draft Financial System Inquiry (FSI) and the 2010 Cooper Review, formally known as the Super System Review (the Review) – are both in agreement about the strength and the value of SMSFs.

Previously the Cooper review had found that the SMSF sector was proving to be "a largely successful and well-functioning part of the [superannuation] system". More recent independent reports also put SMSFs in a favourable light. NAB research revealed the average SMSF outperformed the rest of the superannuation industry in six of the eight years from 2005 to 2012. The Roy Morgan report into 'Superannuation Satisfaction' found a higher level of satisfaction among SMSF members with their superannuation compared with the industry and retail funds. The research, for the six months to 31 December 2014 and based on more than 30,000 interviews, shows the satisfaction rating of:

- SMSF members at 71.9%
- Industry funds at 53.5%
- Retail funds at 51.2%.

A large part of the success of the SMSFs is that they provide a viable alternative to institutionalised funds, as noted by the FSI: "SMSFs deliver members greater flexibility and control, because members can tailor their investments to suit their individual needs."

SMSFs, by their very nature, encourage more active participation in their management, which is particularly important for younger investors who need to o be more engaged in planning their financial future.

Further, SMSFs are increasingly integral to retirement plans that are becoming more important as the general population lives longer. According to the Productivity Commission, the number of Australians aged 75 or more is expected to increase from 6.4% of the population to 14.4% by 2060, an extra four million people. And as many 'older people are prolonging their working life to become part time employees, contractors and consultants', they are using their super to supplement income, it is important that this growing group have easy access to monitor and control their SMSF investments.

Who we are: Brief description of Xpress Super and SuperGuardian

SuperGuardian is a specialist SMSF Administrator and chartered accounting firm with more than 12 years' experience. We provide an SMSF administration, compliance and taxation service for self-managed super fund (SMSF) trustees. We remain one of the few independent, non-aligned administrative platforms.

After eight years of working with intermediaries such as Financial Advisers, Stockbrokers and Accountants, we decided to create a business targeted purely at the self-directed investor, Xpress Super.

We provide up-to-date, easy to access, information to trustees, accountants and financial planners to monitor their SMSFs covering areas such as taxation, regulatory updates, and all investments across different assets ranging from property to shares.

All the reports we keep are accessible online and we update them on a daily basis.

We recently launched a direct property option to trustees, and have selected the St George Bank and Macquarie Bank Lending Services to its lending panel for commercial and residential property.

SuperGuardian now provides white label SMSF services to Bell Potter, Mercer and a number of accounting practices. We represent more than 3500 SMSF trustees.

SuperGuardian's professionalism has led to accolades from business leaders including Chris Cuffe. We are actively involved with the SMSF Professionals' Association of Australia (SPAA) and have represented the industry in discussions with government.

The key issues the Murray report raised about SMSFs:

According to the interim FSI report, "the Australian superannuation system has become an important source of funding for the rest of the economy, particularly for long-term fixed capital formation."

Now the FSI seeks further information on the following specific issues on SMSFs:

- Mandatory education of SMSF trustees:
- The operating costs and gearing of SMSFs: The operating costs of SMSF are lower, and increasingly so, through technology efficiencies and competition. We also understand that the "gearing of SMSFs" affects only a small percentage of funds.
- Should there be any limitations to the establishments of SMSFs, especially conditions linked to starting balances of SMSFs.

It is our intention to address the third point:

Why we think the status quo should remain:

Although we would agree with the panel when it said: "There is scope for greater efficiencies in the superannuation system", we also think that the current status should continue and there should be no barriers to establishing an SMSF.

The ATO investigation, 'Self-managed superannuation funds: a statistical overview 2011-2012', shows that the SMSF sector grew by $175 billion or 53% in the five years to 30 June 2013. This means that in dollar terms, it was the fastest growing sector of the $1.85 trillion superannuation industry, with the SMSF sector contributing the largest proportion of overall growth at 37%.

The growth in the SMSF sector reflects the improvement in community confidence in the economy in the five years to 2013. It also shows the resilience of the SMSFs, having survived the recent Global Financial Crisis (GFC) in such strong condition. If the SMSF system was going to be exposed, it would have happened in the aftermath of the GFC. But almost two years later, when the Cooper Review was handed down, the SMSF sector got a clean bill of health, and has continued to grow.

As people live longer, it is even more important that people are engaged in their superannuation, not less. As the previously mentioned Roy Morgan Research 'Superannuation Satisfaction' report shows, people using trustees are more engaged with their superannuation compared with the industry and retail funds.

It bears repeating that the research done for the six months to 31 December 2014 and based on more than 30,000 interviews, shows the satisfaction rating of:

- SMSF members at 71.9%
- Industry funds at 53.5%
- Retail funds at 51.2%.

We also believe that SMSF members have higher satisfaction when seeking professional advice on their obligations and their investment strategies. This helps them achieve their retirement savings goals by being able to maximise the expertise of specialised SMSF advisors, such as SPAA Specialist Advisors and Auditors.

This is why we would argue that if people are aware that when they are setting up a fund with a low balance there are higher disproportionately higher fees than an APRA-related fund, then it is a price worth paying because:

- They are engaged with their super and this will have long-term benefits
- There will be flow-on benefits to all other areas of their financial lives.

Contrary to criticisms that SMSFs trustees are naïve in their investments, the ATO found that "SMSFs are both flexible and resilient in their ability to concentrate or diversify asset portfolios" with an ability to respond to changing economic circumstances.

And the numbers show that: The ATO reported that the estimates of the return on assets for the SMSF sector was positive (1.0%) in 2011–12. And while lower than the positive returns in 2009–10 and 2010–11, the trend is consistent with APRA funds of more than four members.

More importantly the ATO estimated that the “average operating expense ratio of SMSFs fell over the four years to 2010–11 and remained stable in 2011–12. Further the ratio declined in proportion to the increase in the fund’s asset size.” This contrasts with the estimated average operating expenses of APRA funds that increased from 2010 to 2012.

There have been suggestions that educational qualifications are needed for SMSF trustees. We think this is wrong because, in our experience, most SMSF trustees are not dilettantes; they are small business people, professionals, and farmers. They bring a business focus and a largely professional approach to their investments, as well as a good working knowledge of how the markets they invest in, such as Australian equities (with a focus on stocks with franking credits), cash, and, increasingly, property.

We accept the argument for greater investment diversification by SMSFs. Indeed, it would clearly benefit SMSF trustees to have access to assets such as infrastructure that have the potential to offer a higher yield than cash but still on the lower end of the risk scale. It’s our contention that such assets have been largely focussed at the institutional market and we would hope the FSI could bring down recommendations that would allow greater retail investment. The speed at which SMSFs have taken up ETFs is evidence that trustees will embrace other asset classes when given the opportunity.

Conclusion

There should be no barriers to establishing an SMSF. That was the conclusion of the Cooper Review in 2010, and there has been no evidence since that trustees are proving to be anything less than diligent managers of their superannuation, whether it’s judged in terms of compliance or investment returns.

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