18 September 2020

Committee Secretary
Senate Economics Legislation Committee
PO Box 6100
Parliament House
Canberra ACT 2600

Email: economics.sen@aph.gov.au

Dear Senate Standing Committees on Economics,

SMSF ASSOCIATION SUBMISSION ON TREASURY LAWS AMENDMENT (SELF MANAGED SUPERANNUATION FUNDS) BILL 2020

The SMSF Association welcomes the opportunity to make a submission to the Senate Standing Committee on Economics inquiry on the Treasury Laws Amendment (Self Managed Superannuation Funds) Bill 2020.

We believe increasing the maximum number of members from four to six in an SMSF will provide additional flexibility and choice in the superannuation system.

Increasing the maximum number of SMSF members will allow families with five and six members **the option** to establish an SMSF together or allow the remaining members of a family to join an SMSF, which currently is an unavailable to larger families who are required to have separate superannuation funds.

At a high level, the option to include more members can be beneficial to:

- Lower superannuation fees
- Pool balances to invest in a greater choice of assets
- Increased engagement in superannuation
- Improve estate administration and exit plans

Currently, approximately 93% of SMSFs have only one or two members, indicating that the potential movement to six member funds will not be substantial. Accordingly, we would not expect the option to add more members to an SMSF to create any substantial integrity or administration issues for the SMSF sector as a whole, rather it should just provide additional flexibility for those in a position to utilise it. We believe this is strengthened by the fact that any administrative risks that may currently exist with four member SMSFs have not been detrimental to the sector.

The SMSF Association continues to promote that any decision a trustee can currently make to add extra members to an SMSF should always be properly planned and accompanied by specialist SMSF advice to reduce any potential risks.

Lower superannuation fees

Including more members in an SMSF is likely to have positive effect on fees because SMSFs are typically charged on a fixed administration basis regardless of the number of members and without consideration to the balance of the superannuation account. Pooling superannuation balances in one SMSF can therefore avoid the costs of running separate SMSFs. Furthermore, if the pool of assets is increased in an SMSF through including more members, then the SMSF will become more cost-efficient as the fees reduce as a percentage of the total assets of the fund.

An example is provided below. It details that a family who wish to engage in one SMSF are unable to due to the current member restriction. However, if they were able to combine into one SMSF it may result in an approximate saving of $2,000[1]. Combining the balances not only reduces the fees paid to operate an SMSF but also the expense ratio.

SMSF 1	**Balance**		**SMSF 2**	**Balance**	
Dad	$650,000		Child 3	$250,000	
Mum	$400,000		Cousin	$450,000	
Child 1	$210,000				
Child 2	$230,000				
	$1,490,000			$700,000	
Fee	*$4,270*	*0.29%*	*Fee*	*$3,633*	*0.52%*

SMSF Combined	**Balance**	
Dad	$650,000	
Mum	$400,000	
Child 1	$210,000	
Child 2	$230,000	
Child 3	$250,000	
Cousin	$450,000	
	$2,190,000	
Fee	*$5,966*	*0.27%*

Pool balances to invest in a greater choice of assets

With regards to pooling superannuation balances, an increase in SMSF members means individuals can enjoy the benefits of consolidating assets, increased investment opportunities and flexibility to diversify.

Currently, most three and four member SMSFs have been established to allow all the members of a family to be in the same SMSF or to pool superannuation balances together to purchase a large asset such as a real property. Recently, the reduction in both the concessional and non-concessional caps

[1] Fees are median SMSF auditor, administration and SIS levy expenses by expense type and range for year ended 30 June 2018, ATO.

have also limited the ability for individuals to contribute money into their SMSF and facilitate large purchases.

One example of this involves small business owners shifting their business premises (known in the *Superannuation Industry (Supervision) Act 1993* as "business real property") to their SMSF. This allows small business owners the opportunity to transfer their most significant business asset to their SMSF which increases their ability to save for retirement. This is particularly important for small business operators who do not have the ability to contribute as easily as other individuals as they tend to reinvest in their business rather than contribute to superannuation. Typically, these businesses are also family-owned emphasising the link between the ability to add more family member in an SMSF and business real property.

An increase to six member funds may also spur small business growth by allowing prospective business partners and their spouses to pool retirement savings to acquire a business premise. Take for example, three individuals and their spouses investing in a small café. The expansion to allow more members to contribute and pool balances provides the opportunity to small spur business opportunities that may otherwise have been unavailable.

Importantly though, SMSFs can have different investment strategies for different members, if members do not want to share the same investment strategy. This means engaged superannuation members can have control over their assets and can choose a risk profile that is entirely appropriate to them, not one designed for a collective wide range of individuals.

Increased engagement and estate administration

From an intergenerational perceptive, if children and family members have knowledge about and are part of how their parents' affairs, finances and superannuation are being managed, this familiarity can facilitate improved and more timely engagement with superannuation and estate planning across generations of families. For example, including adult children in their ageing parents' SMSF could help when making administration and investment decisions for the fund.

The SMSF Association notes the possibility that allowing larger SMSFs, especially where adult children are members of the same SMSF as their parents, could give rise to opportunities of elder abuse and complex estate planning disputes. However, even without larger SMSFs, these problems can currently occur and can often be driven by non-members.

We believe this amendment should be regarded as a non-controversial change to the SMSF sector which promotes more choice and flexibility in the superannuation system and does not pose any significant integrity issues, especially if specialist SMSF advice is sought by consumers.

If you have any questions, please do not hesitate in contacting us.

Yours sincerely,

[redacted]

John Maroney

CEO
SMSF Association

ABOUT THE SMSF ASSOCIATION

The SMSF Association is the peak professional body representing SMSF sector which is comprised of over 1.1 million SMSF members and a diverse range of financial professionals servicing SMSFs. The SMSF Association continues to build integrity through professional and education standards for advisors and education standards for trustees. The SMSF Association consists of professional members, principally accountants, auditors, lawyers, financial planners and other professionals such as tax professionals and actuaries. Additionally, the SMSF Association represents SMSF trustee members and provides them access to independent education materials to assist them in the running of their SMSF.