

# MEDIA RELEASE



## Gender gap still exists for SMSF women trustees

- Women are more confident than expected in managing their SMSF and in their understanding of different asset classes, although still far less confident than men
- Women are seeking flexibility around timing of personal super contributions - particularly through work life disruption
- 40 per cent of SMSF trustees believe they will retire at an older age due to parental leave

**Monday, 15 February, 2016:** A new research study jointly released today by Commonwealth Bank and the SMSF Association has uncovered significant findings including differences between the behaviours and confidence levels of men and women SMSF trustees.

Andrea Slattery, Managing Director/CEO, SMSF Association said, “We welcome this in-depth research as it genuinely addresses the engagement and confidence of women in their investments and superannuation savings throughout their lifecycle.”

The research has found that although women account for 47 per cent of Australian SMSF trustees, they are less confident than men in managing their SMSF (83 per cent to 62 per cent), and less assured of their understanding across the asset classes - however are more confident than expected.

The report surveyed 801 SMSF trustees, as well as 535 individuals without a SMSF, to better understand the behaviours, confidence levels and outlook for the different demographic profiles of SMSF investors.

According to the research, 72 per cent of all SMSFs have more than one member, with a partner or spouse (88 per cent) the most common second trustee. Among SMSFs with multiple trustees, men (65 per cent) are significantly more likely than women (28 per cent) to be the sole main decision maker.

Marcus Evans, Head of SMSF Customers, Commonwealth Bank, said the report clearly highlights that SMSF trustees are not all the same and the market is comprised of many different and diverse types of investors with their own unique needs.

“Every SMSF is different, from the types of investments held to how a fund is managed, and these differences have not been well understood historically. This research also shows that there is still a real gender divide for trustees when it comes to confidence and knowledge.

“Given that women account for nearly half of all SMSF members, more must be done to better support and empower female trustees. This is also true when it comes to funds with joint-trustees, with major life events such as a divorce leaving many female trustees without the confidence to manage what is many individuals biggest investment,” Mr Evans said.

Andrea Slattery added: “When life events such as a relationship breakdown occurs, this research shows how women in particular need extra assistance to become confident in continuing their savings programs.

# MEDIA RELEASE



“It also highlights the significance of parental leave and broken work patterns and shows that we must have flexible policies which address and protect women from being left behind by Australia's superannuation system.”

Among SMSF trustees who have taken parental leave, more women (61 per cent) than men (27 per cent) say they now have less super than they otherwise would if they hadn't taken a break from work to care for family. More than 40 per cent of SMSF trustees who have taken parental leave believe they will have to work longer before they can afford to retire.

Perhaps not surprisingly, one third of SMSF trustees who made no special arrangements for their super while on parental leave would do things differently and make additional contributions to cover any future periods of leave.

More than four in ten SMSF trustees (42 per cent) have had an event occur in their life, including loss of employment, a separation/divorce, or death of co-trustee, since starting their SMSF that could have significant implications for the management of their super.

In the event of divorce or separation resulting in a partner ceasing to be a trustee, only half of SMSF members (49 per cent) believe they would be very confident they have sufficient knowledge to take sole responsibility for managing their investments.

[Access a copy of the full report here](#)

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## About the research

The research was developed and conducted by Galaxy Research among a national sample of Australian consumers which included 801 SMSF members and trustees and 535 without an SMSF aged 18 years and older. Respondents were sourced from TEG Rewards' proprietary panel of more than 1 million Australian consumers. The respondents were distributed throughout Australia, including both capital city and non-capital city areas. Following the completion of interviewing, the data was weighted by age, gender and region to reflect the latest ABS population estimates.

## About the SMSF Association

The SMSF Association is the peak professional body representing the SMSF sector throughout Australia. The Association's mandate is to lead the professionalism, integrity and sustainability of the SMSF sector. Its core focus is to raise the standard of advice provided by all professionals to the SMSF industry and to assist the SMSF trustee make informed decisions for their future retirement.

The SMSF Association is committed to promoting a high standard of education among SMSF professionals and trustees and assisting them to work within the regulatory framework, to enable the industry to self-regulate and promote best practice. The Association exists to continually improve the quality of advisors, the knowledge of trustees and the credibility and health of a vibrant SMSF community. [www.smsfassociation.com](http://www.smsfassociation.com)

# Women and SMSFs

## Empowering and supporting SMSF members on their investment journey

A study of Self Managed Super Funds (SMSFs)  
February 2016







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## About the research



The study was undertaken to better understand the dynamics of the Self Managed Super Fund market, with a specific focus on the gender, generational and other demographic differences in relation to managing an SMSF. While the study looked at a number of demographic considerations, a key objective was to examine the difference in behaviours, confidence and market outlook between men and women.

**The research was developed and conducted by Galaxy Research among a national sample of Australian consumers which included 801 SMSF members and trustees and 535 without an SMSF aged 18 years and older.**

Respondents were sourced from TEG Rewards' proprietary panel of more than 1 million Australian consumers. The respondents were distributed throughout Australia, including both capital city and non-capital city areas.

Following the completion of interviewing, the data was weighted by age, gender and region to reflect the latest ABS population estimates.

In this report, respondents have been categorised as Generation Y (Gen Y), Generation X (Gen X), Baby Boomers and Traditionalists. The age groups that are identified as being part of each generation are:

- Gen Y: 18-34 years
- Gen X 35-49 years
- Baby Boomers: 50-64 years
- Traditionalists: 65 years and older.

This report was commissioned by Commonwealth Bank in conjunction with the SMSF Association.

### About Commonwealth Bank

Commonwealth Bank (CommBank) is Australia's leading provider of integrated financial services, including retail, premium, business and institutional banking, funds management, superannuation, insurance, investment and share-broking products and services. The Group is one of the largest listed companies on the Australian Securities Exchange and is included in the Morgan Stanley Capital Global Index. CommBank aims to excel at securing and enhancing the financial wellbeing of people, businesses and communities.

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### About the SMSF Association

The SMSF Association is the peak professional body representing the SMSF sector throughout Australia. The Association's mandate is to lead the professionalism, integrity and sustainability of the SMSF sector. Its core focus is to raise the standard of advice provided by all professionals to the SMSF industry and to assist the SMSF trustee make informed decisions for their future retirement. The SMSF Association is committed to promoting a high standard of education among SMSF professionals and trustees and assisting them to work within the regulatory framework, to enable the industry to self-regulate and promote best practice.

The Association exists to continually improve the quality of advisors, the knowledge of trustees and the credibility and health of a vibrant SMSF community.

[www.smsfassociation.com](http://www.smsfassociation.com)







**SMSFs are a leading growth sector playing a very important role in the Australian investment market. More than one million<sup>1</sup> Australians are members of a Self Managed Super Fund (SMSF), representing a total investment pool of \$576 billion<sup>2</sup>, and they have unique requirements as they seek to build their pre and post-retirement investment portfolios.**

## Foreword

**As such, Commonwealth Bank in partnership with SMSF Association has undertaken a study conducted from a national sample of 801 SMSF trustees and 535 consumers without an SMSF to investigate the differences in behaviour and outlook for SMSF members.**

The SMSF market continues to experience consistent growth, and for the year to September 2015 it was no different, with assets growing at 4% and trustee numbers at 5%<sup>3</sup>.

Within the SMSF community, there are many different types of investors that demonstrate significantly different behaviours. In particular, this report looks closely at gender and

generational differences, and reveals that behaviours, market knowledge and outlook differ markedly across the various demographics.

Overall, the study highlights the need for financial advisors and SMSF members to consider the often significant differences that exist between trustees of different ages and genders when building their SMSF portfolio. Particularly when looking at supporting women and their SMSF needs, there is an opportunity to provide more support that takes into account the key insights and findings of this research, with education being one of the most important factors in empowering all SMSF members.

### Confidence, outlook and performance

With diversity amongst SMSF membership comes a variation between genders and age groups in how they view the outlook for many of the most common asset classes and their confidence in setting up and managing an SMSF.

The research shows a significant difference in these areas for men and women, and across the four generations that comprised the survey sample.

### Women and SMSFs – support and education for an important and large segment of SMSF members.

With women making up 47%<sup>4</sup> of all SMSF members, we have investigated the difference in behaviours, confidence and market outlook among males and females. Overall women indicate they are less confident than men in their understanding of all asset classes, men are also more likely to be the sole decision maker in a joint trustee scenario.

Interestingly, when asked to consider the longer life expectancy amongst women, more than half of all SMSF trustees believe women should adopt more aggressive investment strategies so they can better support themselves in retirement. It is important to consider a range of factors when formulating and executing on an investment strategy, and each SMSF should determine their risk appetite and understand their portfolio options to ensure that the SMSF is suited to their individual needs.

### Life events can have a significant impact on your SMSF

With 42% of trustees experiencing major events in their life that could impact their SMSF, it is important to consider the best management approach should these events occur. The research looks closely at events such as divorce, a break from work, or the death of a co-trustee.

One of the primary findings is that flexibility is important for SMSF trustees in the context of contributions to ensure that investment portfolios are sufficient to support SMSF members in retirement. Perhaps not surprisingly, almost half of SMSF trustees would like more flexibility in the timing and amount of personal contributions they can make each year to allow them to catch up on their super after taking a break from work to care for family.

Following a separation, divorce or death of a co-trustee, women are more likely to make changes to their SMSF to align with their own investment goals while men are more likely to maintain the strategies already in place. In addition, just under half of all SMSF trustees don't have an estate plan in place should the death of a co-trustee occur.

### Younger generations are more self-sufficient and have higher understanding of complex asset classes

Interestingly, the study found that Gen Y overall are more optimistic than older generations about the future outlook for different asset classes, including cash and bonds, and more confident in managing asset classes such as alternative investments, hybrid securities, cash management accounts (CMAs) and structured products.

One in five Gen X SMSF trustees say they set up their SMSF because they wanted to use their super to invest in property. Similarly, when compared to older SMSF trustees, a considerably higher proportion of Gen Y and Gen X say they set up their SMSF to gain access to borrowing via super.

Advisors also appear to have a greater influence on older SMSF trustees, with Gen Y less likely than other generations to say they set up their SMSF on the advice of their financial planner.

We hope the results of this report are informative for SMSF trustees and financial advisors, and helps both to better understand important trends, insights and unique behaviours in a rapidly changing and dynamic marketplace.

**Marcus Evans,**  
Head of SMSF Customers,  
Commonwealth Bank

**Andrea Slattery,**  
Managing Director/CEO,  
SMSF Association

<sup>1</sup> ATO quarterly report – September 2015

<sup>2</sup> APRA quarterly superannuation performance statistics – September 2015

<sup>3</sup> ATO quarterly report – September 2015

<sup>4</sup> ATO quarterly report – September 2015



# Main findings

## The dynamics of the SMSF market

The research unearths interesting contrasts between SMSF trustees of different genders and generations. In particular, it highlights variations in confidence and satisfaction levels in relation to establishing and managing their fund. Findings both confirm and extend commonly held views about trustees when compared with individuals who don't manage their super.

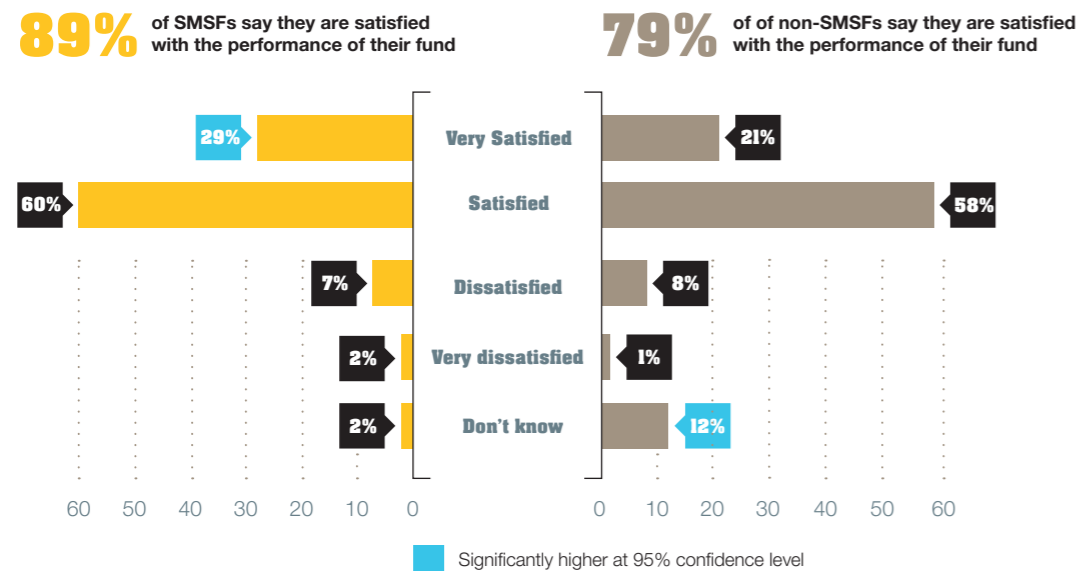
Firstly, according to the survey results, SMSF trustees looking to retire have indicated the average age they will be able to afford to do this is 63 years.

In this study, SMSF trustees continue to reinforce that the key reasons for setting up an SMSF are to gain more control over investments/choice of shares/property (59%), flexibility (40%) and to save money on fees (40%).

Overall customers with SMSFs are quite or very confident (82%) in managing their personal finances compared to people without an SMSF (72%). In addition, the survey reveals that SMSF trustees are more satisfied with the performance of their superannuation fund (89%) than non-SMSF customers (79%).

The study also found that 42% of SMSF trustees have had an event occur in their life since starting their SMSF that has had significant implications for the management of their superannuation

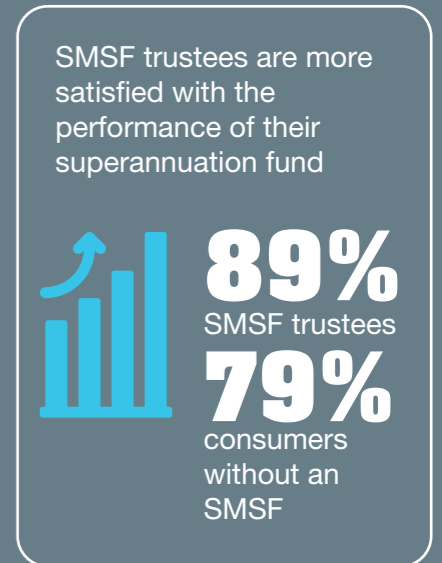
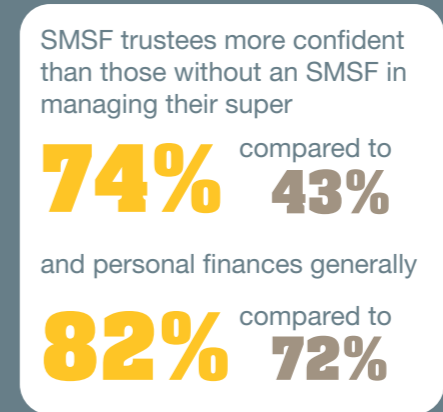
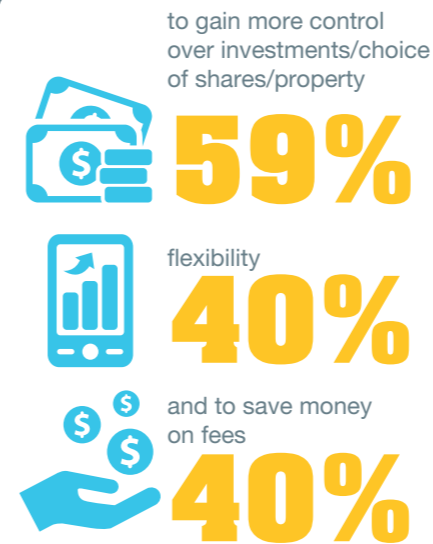
## SMSF trustees are more likely to be satisfied with the performance of their superannuation fund



n=801  
How satisfied are you with the performance of your self-managed superannuation fund?

n=535  
How satisfied are you with the performance of your main superannuation fund?

## The key reasons for setting up an SMSF are



# Women and SMSFs

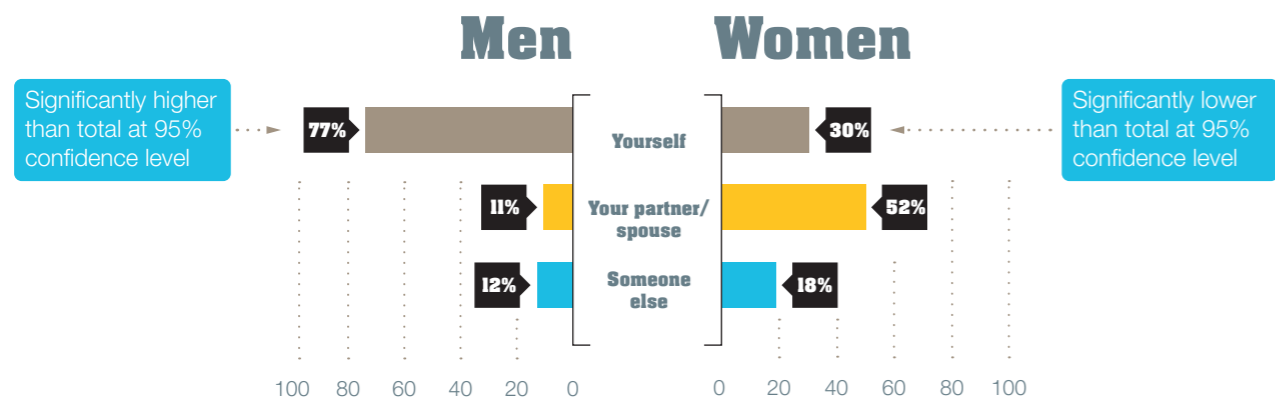
## Establishment, management and outlook

Control, flexibility and saving money on fees are the top three reasons for establishing an SMSF, which is consistent with other industry data sources.

However, men cited they are more likely than women to set up their own SMSF to gain more control over their investments (55% compared to 45%), to be able to choose specific shares to invest in (23% compared to 15%), because they believe they can make better investments than super fund managers (19% compared with 13%) and because of their poor performance of previous super fund (18% compared with 11%).

When looking at the confidence of men and women in relation to their SMSF, there is a significant difference. The research reveals that 83% of men indicate they are very or quite confident in managing their SMSF, compared with only 62% of women. This survey also showed that among SMSF members whose fund has multiple trustees, men (77%) are more likely than women (30%) to have initiated the establishment of their SMSF.

### Men are more likely than women to have initiated the establishment of their SMSF



n=577; have 2 or more trustees in SMSF  
Who initiated the establishment of your SMSF?

**Confidence**

**83%** **62%**

Men with an SMSF are more likely than women to say they are very or quite confident in managing their SMSF

**Initiated**

**77%** **30%**

Men far more likely than women to have initiated the establishment of their SMSF

Men are more likely than women to set up their own SMSF to gain more control over their investments

**55%** compared to **45%**



# Women and SMSFs

## Gender and asset classes

The research illustrates some substantial gender differences when looking at the understanding and outlook for a range of asset classes that could be included in an SMSF investment portfolio.

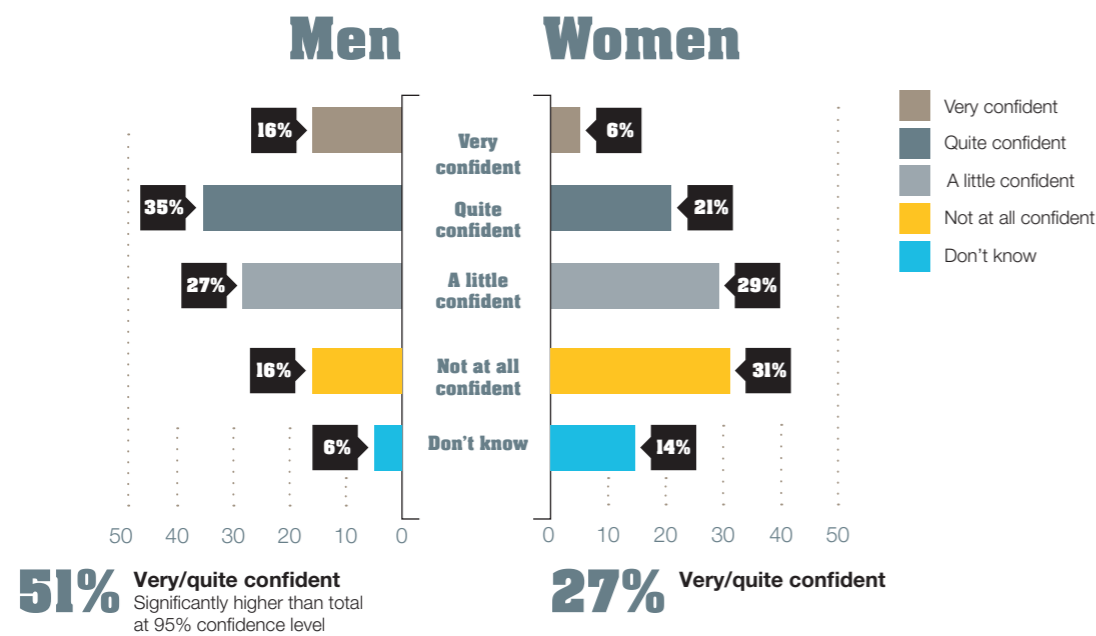
Men are more likely than women to invest in Australian shares (55% compared to 46%), bank cash management accounts (CMAs) (23% compared to 15%) and hybrid securities (11% compared to 4%).

In terms of outlook, SMSF trustees believe the assets that will fare the best are investment properties (43%), Australian shares (39%), international shares (34%) and managed funds (34%). In addition, men are more optimistic than women about the outlook for international shares (39% compared to 28%).

In general, men are more confident in their understanding of different asset classes compared to women. Confidence in understanding of share trading showed some of the biggest gaps between men and women, specifically in relation to Australian shares, international shares and Exchange Traded Funds (ETFs).

Interestingly, when asked to consider the longer life expectancy amongst women, more than half of all SMSF trustees (56%) believe women should adopt more aggressive investment strategies so they can better support themselves in retirement.

How confident are you that you know the level of international exposure among different asset classes?



n=801  
How confident are you that you know the level of international exposure among different asset classes?

**MEN 53%**  
**& BABY BOOMERS 37%**  
are well represented among SMSF trustees

SMSF trustees are more likely to be retired, small business owners and white collar workers

SMSF trustees are more likely to prefer to be very organised when it comes to non-financial aspects of their life

SMSFs have a higher level of education and household income on average than those without an SMSF

Overall, SMSF trustees tend to be more health conscious and engage in more frequent moderate to high intensity physical exercise

**MORE THAN HALF OF SMSFs 56%**  
believe women, because they live longer on average, should adopt more aggressive investment strategies so they can better support themselves in retirement

# Women and SMSFs

## Dynamics of joint trustees

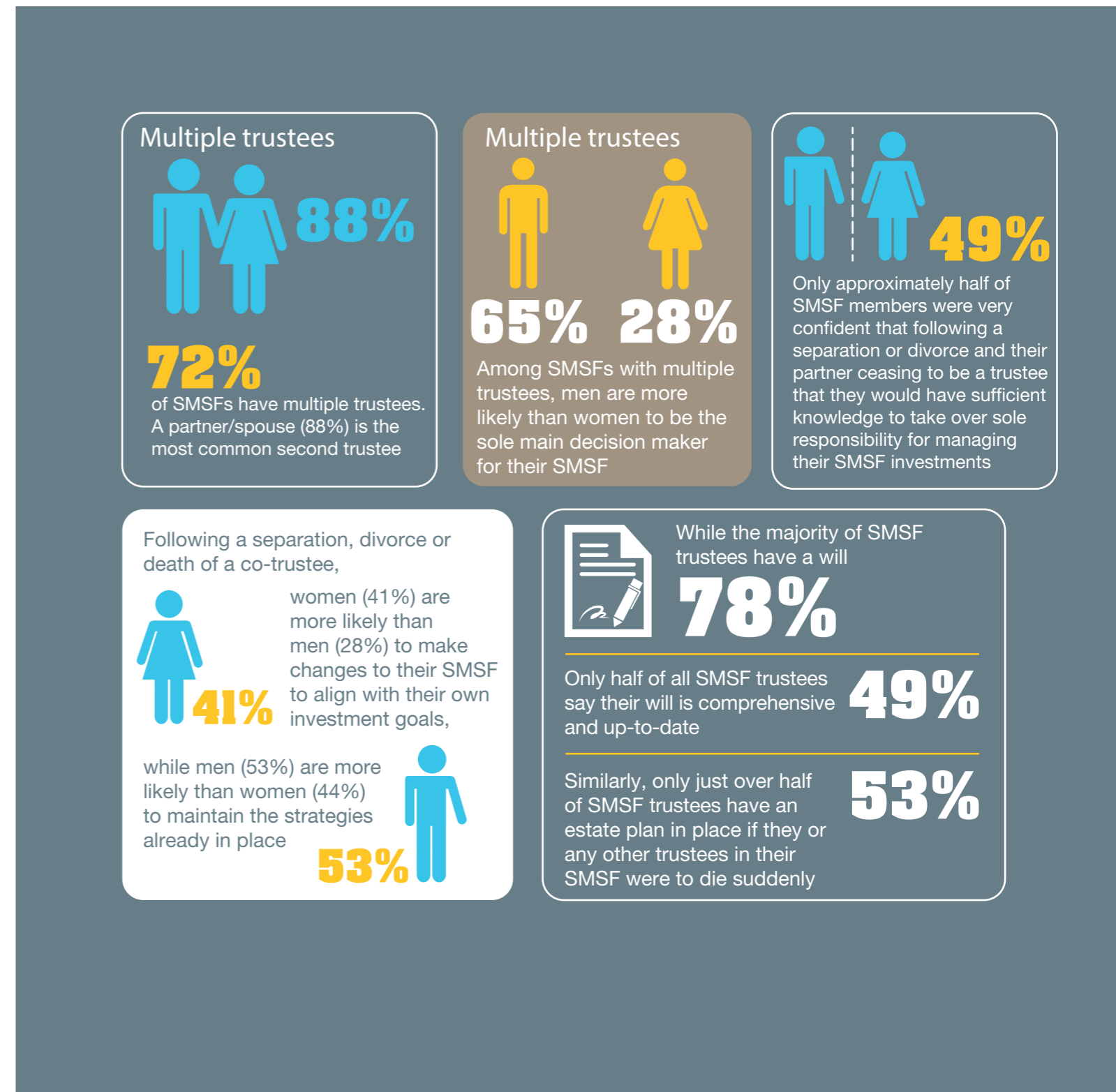
According to the research, SMSFs with more than one member make up 72% of all SMSFs, where SMSFs have two members, the most common is spouses/partners (88%).

Among SMSFs with multiple trustees, men (65%) are significantly more likely than women (28%) to be the sole main decision maker for their SMSF.

Less than half (49%) of SMSF trustees were very confident that following a separation or divorce and their partner ceasing to be a trustee that they would have sufficient knowledge to take over sole responsibility for managing their SMSF investments.

After separation, divorce or death of a co-trustee, women (41%) are more likely to make changes to their SMSF in line with their own investment goals while men are more likely to maintain the strategies already in place (53%).

While the majority of SMSF trustees have a will (78%), only half of them say their will is comprehensive and up-to-date (49%). Similarly, only just over half of SMSF trustees (53%) have an estate plan in place that covers their family if they or any other trustees in their SMSF were to die suddenly.





# Women and SMSFs

## Impact of significant life events on super

More than four in 10 SMSF trustees (42%) have had an event occur in their life since establishing their SMSF that could have significant implications for the management of their superannuation.

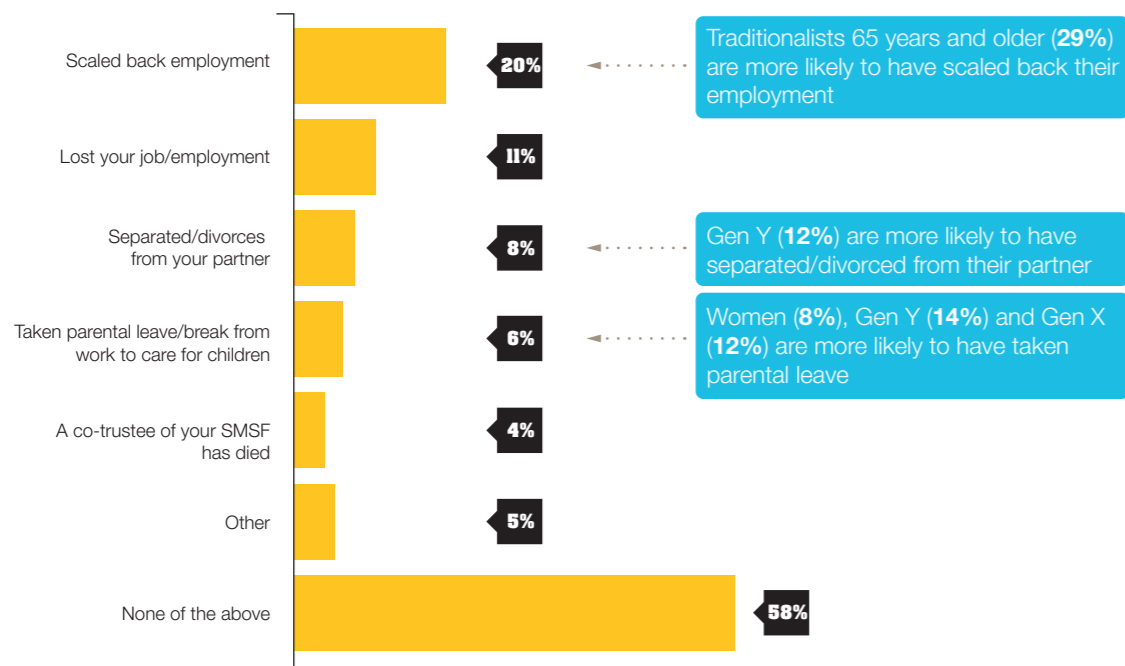
Among SMSF trustees who have taken parental leave, more women (61%) than men (27%) say they now have less super than they otherwise would have had if they hadn't taken a break from work to care for family.

Over half of SMSF trustees who have taken parental leave (55%) made additional contributions to their superannuation to cover the period when they would not have any income.

Interestingly, just under half of SMSF trustees (47%) would like more flexibility in the timing and amount of personal contributions people can make each year to allow them to catch up on their super after taking a break from work to care for their family.

For those SMSF trustees that took parental leave, four in 10 indicated that they will now be older before they will be able to afford to retire. In addition, among working SMSF trustees, 50 years and older, women (61%) are more likely than men (45%), to want to reduce their working hours when making the transition to retirement, whilst maintaining their overall income level.

## Impact on life events of an SMSF trustee



n=801  
Since starting your SMSF, have any of these events occurred in your life?

Traditionalists 65 years and older (29%) are more likely to have scaled back their employment

Gen Y (12%) are more likely to have separated/divorced from their partner

Women (8%), Gen Y (14%) and Gen X (12%) are more likely to have taken parental leave

More than four in 10

# 42%

of SMSF trustees have had an event occur in their life, such as a divorce, since starting their SMSF that could have significant implications for the management of their superannuation



**47%** of respondents

After taking a break from work to care for family, almost half of SMSF trustees would like more flexibility in the timing and amount of contributions they make each year to allow them to catch up on their super



## Parental Leave



**61%** **27%**

Among SMSF trustees who have taken parental leave, more women than men say they now have less super than they otherwise would have if they hadn't taken a break from work to care for family

Over half of the SMSF trustees who have taken parental leave **55%**

also made additional contributions to their superannuation to cover the period when they would not have any income.



# Generational Differences

Baby Boomers and Traditionalists are more likely than Gen X and Gen Y to indicate that the reason they established an SMSF was to gain more control over their investments (58% compared to 40%). Accountants also play a more important role in the decision to set up an SMSF among the older generations (24%) compared to younger generations (12%).

Self employment was another factor cited as a key reason to establish an SMSF, and played a bigger role with Baby Boomers and Traditionalists versus the younger generations (22% compared with 13%).

Interestingly, Gen Y SMSF trustees indicated a more positive outlook on different asset classes than their older counterparts, and were substantially more confident in managing complex asset classes such as alternative investments, hybrid securities and structured products.

When looking at the reasons to establish an SMSF, there were also some significant differences between the generations.

Gen X (21%) were the most likely to set up their SMSF to invest in property via their super. Gen Y and Gen X (10%) are also more likely than Baby Boomers and Traditionalists (3%) to set up their SMSF to gain access to borrowing via their super.

Financial planners may need to find different ways to appeal to younger audiences. The research reveals the generational difference in using the advice of a financial planner to set up their SMSF, with older generations being more inclined to seek this type of support. The research showed that Gen Y (11%) indicate they are less likely than Gen X (25%), Baby Boomers (27%) and Traditionalists (29%) to have set up their SMSF after advice from a financial planner.



## GEN Y

tend to be more optimistic about the future outlook for different asset classes than older generations

## GEN Y

are more confident in managing complex asset classes such as alternative investments, hybrid securities and structured products

## GEN X

**21%** most likely to say they set up their SMSF



because they wanted to invest in property via their super

## GEN X & GEN Y

are more likely – **10%**

to say they set up their SMSF to gain access to borrowing via their super than

Baby Boomers and Traditionalists **3%**

**GEN Y 11%** are less likely than

**GEN X 25%**  
**BABY BOOMERS 27%**  
**TRADITIONALISTS 29%**

to say they set up their SMSF on the advice of their financial planner

## Conclusion

**The SMSF market represents an important and growing segment of the Australian investment market.**

**This study highlights that SMSF trustees are not all the same. The market is comprised of many different types of investors, each with their own unique behaviours, requirements and investment objectives.**

The diversity of experiences and attitudes of SMSF trustees is particularly evident when examining gender differences, with the report finding there is a gender gap in their level of confidence about both the management of their super fund and understanding of asset classes.

This is a significant revelation given women account for 47%<sup>4</sup> of all SMSF members.

This study was undertaken to assist all industry stakeholders in their understanding of the SMSF market. By providing more clarity around the different types of SMSF investors and highlighting their unique behaviours and requirements, the industry is able to better support SMSF customers in realising their retirement aspirations.

The Commonwealth Bank, in partnership with the SMSF Association, looks forward to unlocking further insights into the unique behaviours and motivations of SMSF trustees as the market continues to evolve.



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Self Managed  
Super Fund  
Association



**Things you should know:**

This paper was prepared by Commonwealth Bank of Australia ABN 48 123 123 124, AFSL 234945 (CommBank) together with the SMSF Association ABN 67 103 739 617 to provide general information. It is not intended to replace professional advice. This information has been prepared without considering objectives, financial and taxation situation or needs, before acting on it consider its appropriateness to individual and client needs. Consider seeking professional advice relevant to individual needs. Neither CommBank nor SMSF Association will be liable to them for any loss or damage as a result of the reader relying on this information.



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# Intimate with Self-Managed Superannuation

An annual study of Self-Managed Superannuation Funds

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**2015**



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SMSF Professionals' Association of Australia  
Limited trading as SMSF Association (SMSF  
Association) ABN 67 103 739 617

The SMSF Association is the peak body for SMSF professionals in Australia. The Association's mandate is to lead the professionalism, integrity and sustainability of the SMSF sector. The SMSF Association's core focus is to raise the standard of advice provided by all professionals to the SMSF industry. The SMSF Association is committed to promoting a high standard of education among SMSF professionals and assisting them to work within the regulatory framework, enabling the industry to self-regulate and promote best practice.

We exist to continually improve the quality of advisors, the knowledge of trustees and the credibility and health of a vibrant SMSF community.

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# Welcome to the fifth annual Intimate with Self-Managed Superannuation report

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The report was commissioned by the SMSF Association in conjunction with the National Australia Bank and research undertaken by market research and consultancy firm CoreData, providing the pre-eminent quantitative analysis of Australia's growing self-managed super fund (SMSF) market.

It is the culmination of research conducted among Australian SMSF trustees, financial advisers and accountants, and provides an insight into Australia's fastest growing superannuation sector.

The popularity and awareness of SMSFs across superannuation members remains high as evidenced not only by the sector's growth in terms of FUA, accounts and members, but also by the increased focus that APRA-regulated funds have placed on stemming the outflow of members to SMSFs and efforts to identify and retain those members most at risk of leaving.

What we see since the previous report is a rise in trustee confidence, due largely to a turnaround in investment performance from previous years. The increased confidence appears to be strongly linked with how well SMSF trustees are tracking in meeting retirement objectives, with 69.1% of trustees reasonably confident that those objectives will be met.

We are also seeing greater interest in SMSFs by a younger demographic, those younger than 40, who are seeking a one-stop shop to service their requirements. The emergence of this group, as well as the need to provide income to take into account greater longevity as part of the planning process, bode well for appropriately qualified professionals with SMSF expertise.

The 2015 report looks at the opportunities that exist as the growth in the sector continues. It also highlights the importance of advice and education, with access to investment expertise cited as a key benefit of using a financial planner.

The Intimate with Self-Managed Superannuation continues to be the benchmark for the changing and evolving SMSF sector. We are pleased to present this report for the fifth consecutive year and the insight it provides as a significant component of Australia's retirement system and we encourage your feedback.

**Andrea Slattery**  
Chief Executive Officer  
SMSF Association

**Nathan Walsh**  
General Manager  
nabtrade

## Change driving growth opportunities

### **Changing trustee behaviour a boon for advisers**

While the SMSF sector as a whole is unlikely to experience absolute growth in the double digits like it has in the past, the golden years for the sector may be yet to come as the changing behaviour of trustees leads to new growth opportunities. The sector continues to move away from its 'do-it-yourself' (DIY) roots with SMSFs now perceived by many trustees as a 'help-me-do-it' rather than a 'do-it-myself' super savings vehicle.

By behavioural profile, coach seeker and outsourcer trustees are the most likely to turn to advisers for support in managing their SMSF and hence present the best growth opportunities for advisers. Close to half (45.9%) of trustees are classified as a coach seeker, up marginally from 43.9% in 2013, while a further 15.0% are classified as an outsourcer, up from 11.9% in 2013.

### **Accountants poised for growth**

Accountants are well placed to capitalise on the growth opportunities present in the SMSF sector due to the nature of their service offer aligning with the areas in which trustees most require professional advice and assistance – tax and compliance.

Nine in 10 (90.1%) accountants provide tax advice as part of their SMSF service offer, compared to just 35.2% of financial planners, while seven in 10 (70.3%) accountants offer compliance services, compared to just 26.9% of financial planners.

Although these findings are largely a reflection of their traditional business models, accountants that take up a full or limited licence under the new licensing regime could be poised for strong revenue growth from the SMSF sector.

### **'One-stop shop' in high demand**

More than half of trustees (50.4%) who derive their investment and asset allocation strategies with support from an adviser prefer a 'one-stop shop' proposition that covers all of their needs. In recognition of this demand, advisers are increasingly offering SMSF services in-house. More than three in five (63.7%) advisers offer tax advice in 2014, up from 45.9% in 2013, while more than half (50.7%) provide compliance services, up from 36.6% in 2013.

In order to thrive in the SMSF industry in the face of increased competition from accountants, financial planners may need to further diversify their service offering and provide a broader range of advisory services in-house, including tax and compliance.

### **Younger Australians the next big opportunity?**

While ATO statistics show that the demographic of trustees is not changing, close to two thirds (65.7%) of advisers claim to have seen a growing demand for SMSF services from 31-40 year olds and more than one in five (21.7%) have experienced an increase in demand from 20-30 year olds, suggesting that 20-40 year olds could be the next big SMSF opportunity for advisers.

Given the breadth of advice and support services that younger trustees are likely to require, a 'one-stop shop' professional services relationship that covers all their needs is likely to work best for advisers in attracting these younger generations as SMSF clients.

### **Half of trustees remain unadvised**

Close to half (47.2%) of trustees are currently unadvised, with lack of trust a major barrier to take up.

Advisers should look to differentiate and position themselves as a trusted partner by focusing on promoting the traits considered most desirable among would-be advice seekers – namely investment expertise, recommendations and professional qualifications.

Advisers who establish themselves as trusted partners and implement a strong referral process in their business will be better placed in attracting unadvised Australians as clients.

## Knowledge is power

### Trustees relying more on professionals

With their knowledge and expertise on SMSFs, advisers are the lifeblood of the SMSF sector. Trustees are becoming less personally involved across all tasks related to their SMSF, and are increasingly relying on advisers, continuing the move away from the concept of an SMSF as a DIY proposition.

Compared to 2013, trustees are less likely to be personally involved in monitoring their SMSF's performance/balance (68.6% vs. 75.1%), researching new investment opportunities (53.0% vs. 58.7%) and acquiring/divesting investments (52.4% vs. 59.7%). The majority (56.6%) of trustees are also not personally involved in administration/compliance tasks, up from 51.2% in 2013.

### Investment strategy the key knowledge gap for trustees

Although trustees still have input on the investment and asset allocation strategies of their SMSF, they are increasingly relying on advisers to derive these strategies.

While more than half (50.9%) of trustees derived their investment and asset allocation strategy for their SMSF through their own research process, in line with 51.9% in 2013, close to two in five (39.2%) relied on advice from a financial planner, up from 34.3% in 2013. Furthermore, more than one in four (26.7%) relied on advice from an accountant, up from 21.6% in 2013.

### Younger trustees need education on obligations

While a greater reliance on professional advice may provide trustees with peace of mind that their SMSF is under expert care, the research suggests they need to be educated and reminded of their roles and obligations.

Close to three in 10 (28.4%) trustees rate their understanding as 'could be better' or say 'not very well' when asked how well they understand their role and responsibilities, up from 25.2% in 2013 and 18.5% in 2012. Generation Y trustees are the least likely to have a good grasp of their roles and responsibilities (38.1%), with more than three in five (61.0%) saying that understanding these is very challenging.

## Risk and return re-assessed

### Managing risk top of mind

Among trustees who are familiar with their SMSF investment strategy, risk is top of mind when developing the strategy. More than two in five (42.9%) trustees hold at least 10% of their SMSF portfolio in cash to reduce their portfolio's risk, up from 28.6% in 2013.

Furthermore, the vast majority (80.3%) of trustees say that they do not currently borrow or do not intend to borrow to invest in their SMSF portfolio under the limited recourse borrowing arrangement (LRBA) regime. The Australian Tax Office (ATO) September 2014 data also suggests that the size of SMSF borrowing under the LRBA regime represents less than 2% of total assets<sup>1</sup>.

### Low cash rate driving reallocation

Holding cash is a major way for trustees to reduce risk in their SMSF portfolio. However, the record low cash rate of 2.00%, which previously sat at 2.50% from August 2013 to January 2015, has likely contributed to trustees moving funds out of cash to other asset classes, particularly equities.

The average proportion of cash held by SMSF trustees in their portfolio has fallen to 15.9% from 19.7% in 2013. On the other hand, the average allocation to Australian equities has risen since 2013

<sup>1</sup> ATO Self-managed super fund statistical report – September 2014



(42.6% vs. 36.1%). The consistently low cash rate has also meant that nearly half (49.1%) of trustees are looking at other investment alternatives to produce returns.

### **Female trustees, Generation Y trustees and cash alternatives**

Females and Generation Y trustees typically hold more cash in their SMSF portfolio and most commonly cite 'waiting for a better investment option' as a reason for their cash allocation.

Beyond the alternatives to cash, female trustees are seeking broader education on investments, given that they are more likely to rate their investment knowledge as poor or average (63.5% vs. 46.6%) than male trustees.

### **Older trustees need to balance longevity and investment risks**

While Generation Y trustees are the most likely to hold equities in their SMSF portfolio (53.1%), older trustees also have a penchant for equities, with an average allocation of 47.8% among Generation X trustees, 48.7% among Baby Boomer trustees and 52.4% among Pre-Boomer trustees.

This could prove risky for older trustees as poor equities returns could expose them to a risk of outliving their savings, or longevity risk. Advisers have a role to play with older trustees by working with them and educating them on investment strategies that seek to better balance their risk and return objectives and minimise longevity risk.

### **Trustee underinsurance risk overblown**

The oft-publicised trustee underinsurance risk appears to be overblown. While only three in 10 (29.9%) trustees have purchased insurance within their SMSF, more than one in five (21.2%) have insurance coverage either through their APRA fund or outside of super.

Younger trustees are considerably more likely to hold insurance in some form, with two thirds (66.7%) of Generation Y trustees and close to three quarters (73.2%) of Generation X trustees being insured.

Claims about trustee underinsurance do not take into account insurance coverage held outside SMSFs and that the data is skewed by greater underinsurance among older trustees, who make up the majority of all trustees.

## **Retirement preparedness**

### **Growing confidence about retirement**

Despite anticipating a greater amount that will be needed in retirement, close to seven in 10 (69.1%) trustees are confident that they are on track to achieve their desired retirement income, up from 66.7% in 2013.

Trustees are considerably more likely than non-trustees to be confident about their retirement outcomes (69.1% vs. 35.2%), which could be attributed to trustees being considerably more likely to be receiving financial advice (52.8% vs. 29.5%).

### **Low take up of retirement income products**

Take up of retirement income products remains low among both trustees and non-trustees, with two in five citing other savings/investments as their source of retirement income (39.5% and 39.3% respectively).

Advisers have a role to play in educating trustee and non-trustee clients to allow them to make an informed decision about how to manage their cash flow in retirement. However, this also reflects an underdeveloped Australian retirement product market and a need for a greater range of retirement products to help Australians manage longevity risk in their retirement.

### **Pre-retirees staying in the workforce longer**

If the superannuation preservation age was raised to 70, use of Transition to Retirement (TTR) pensions

are reasons for a sizeable proportion of pre-retiree trustees and non-trustees to stay in the workforce for longer.

More than two in five (42.1%) pre-retiree trustees and the majority (56.8%) of pre-retiree non-trustees say they would be likely to remain in the workforce until age 70 if the preservation age was raised. Furthermore, the majority of pre-retiree trustees and non-trustees (54.3% and 55.0% respectively) are encouraged to some extent to remain in the workforce by TTR pensions.

While total SMSF benefit payments have increased by 59% since 2009, payments taken as lump sums have fallen by 22% and payments taken as TTR pensions and regular income streams have almost doubled<sup>2</sup>.

In the 2009 financial year, income streams amounted to 75.7% of all benefit payments from SMSFs, of which TTR income streams (TRIS) amounted to 9.1% of total payments. By the 2013 financial year, the proportion of income streams paid from SMSFs had increased to 93.2%, of which 11.4% were TTR pensions and just 6.8% were lump sums, compared with 13.8% of lump sums in the 2009 financial year.

Policies that encourage older Australians to stay at work for longer might reduce longevity risk given that employment could provide income to cover for investment losses or underperformance.

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<sup>2</sup> ATO Self-managed superannuation funds: A statistical overview 2012-2013 – December 2014

# Methodology

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The fifth annual *Intimate with Self-Managed Superannuation* research report is sourced from a collection of quantitative data gathered from SMSF trustees and professional advisers in November and December 2014.

Two online surveys were developed and hosted by CoreData following liaison with the SMSF Association.

## SMSF trustee research

### Online survey

The trustee survey was conducted from 10th November through to 10th December, the primary target being SMSF trustees. Data was also collected from members of other super funds (excluding SMSFs) to compare and contrast the views of trustees against Australian Prudential Regulation Authority (APRA)-regulated fund members.

Respondents were sourced from CoreData's proprietary panel of more than 130,000 Australian consumers and the SMSF Association's member network.

A total of 1,000 Australian consumers were surveyed, which included 468 SMSF trustees and 532 APRA fund members.

## SMSF adviser research

### Adviser survey

The adviser survey was conducted from 10th November through to 19th December and targeted professionals providing advice and administration solutions for SMSF clients.

Respondents were sourced from CoreData's proprietary panel of Australian financial advisers and the SMSF Association's member network and included primarily financial planners, accountants and practice principals, as well as a small number of auditors and lawyers.

A total of 436 responses were recorded for this component of the research.

## Definitions of terms used in this report

**Financial adviser** – When we use the term financial adviser, we are using this as an all-encompassing term for financial planners, accountants and other professionals who provide advice and/or administration services to the SMSF sector.

**Financial planner** – The term financial planner refers specifically to those who classify themselves as one of the following: financial planner, risk adviser or practice principal.

**Trustees** – respondents that are members of a self-managed super fund (SMSF).

**Non-trustees** – respondents that are members of APRA regulated superannuation funds.



# Growth opportunities



[www.smsfassociation.com](http://www.smsfassociation.com)

# Growth opportunities

## Introduction

Despite a softening in net establishments of SMSFs in 2014, the SMSF sector has continued to grow and remains a critical pillar of the Australian superannuation landscape. More than 1 million Australians are now members of an SMSF and the sector has more than \$550 billion in assets, according to the Australian Tax Office (ATO)<sup>3</sup>.

The sheer size of the sector means that it continues to represent an attractive opportunity for financial advisers who provide advice and/or administration solutions to SMSF trustees, as well as other SMSF service providers.

At the same time, the SMSF industry represents a threat to APRA-regulated funds, serious enough to warrant a growing number of these funds launching direct investment options (DIOs) and focusing on member retention strategies in order to minimise the leakage of their members to SMSFs.

As advisers and SMSF service providers now turn to focus their attention on the growth opportunities presented by the sector, they must consider how they can best leverage their service offering to better meet the changing demands and behaviour of SMSF trustees.

## The new breed of trustees

The new breed of trustees are open to an advice relationship and see SMSFs not so much as a do-it-yourself (DIY) option but rather a ‘help-me-do-it’ solution to superannuation savings.

The inaugural SMSF Association *Intimate with Self-Managed Superannuation* report, published in February 2011, detailed the various behavioural profiles that exist within both the broader Australian population and the SMSF trustee population – controllers, coach seekers and outsourcers.

The early movers into SMSFs were the controllers, who largely took up SMSFs as a DIY alternative to the APRA fund sector, in search of greater control and flexibility. While these continue to be key drivers for SMSF establishment, coach seeker and outsourcer trustees now present the biggest growth opportunity for financial advisers, given their amenability to financial advice and recognition of the viability of the vehicle as an advised proposition.

‘Controllers’ make up around 30% of the broader Australian population and are defined as those who are interested in managing their money and finances and enjoy doing it themselves.

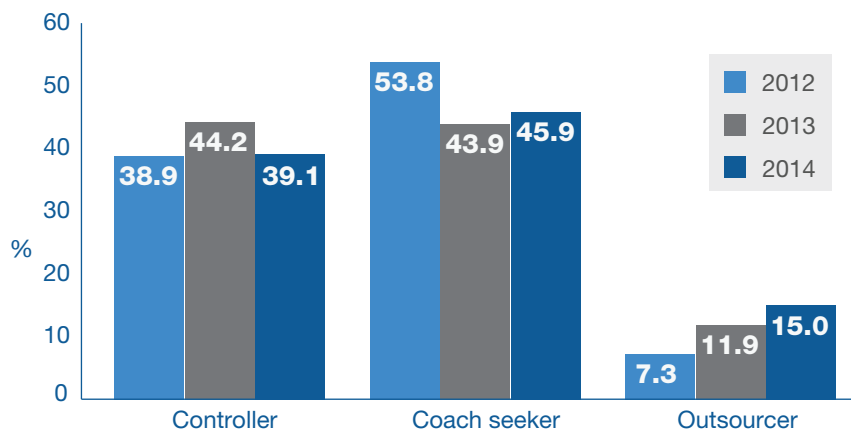
‘Coach seekers’ make up about 50% of the broader Australian population and are defined as those who would rather do things themselves, but need information to support their decisions or are looking for someone to help them.

Around 20% of the broader Australian population are classified as ‘outsourcers’. Outsourcers are those who would rather someone else manage their money and finances and typically pass trust to third parties when it comes to financial decision-making.

As shown in Figure 1, close to half (45.9%) of trustees are classified as coach seekers, up marginally from 43.9% in 2013, while a further 15.0% are classified as outsourcers, up from 11.9% in 2013. Nearly two in five (39.1%) are controllers, down from 44.2% in 2013.

<sup>3</sup> ATO Self-managed super fund statistical report – September 2014

Figure 1 – Trustee behavioural segments



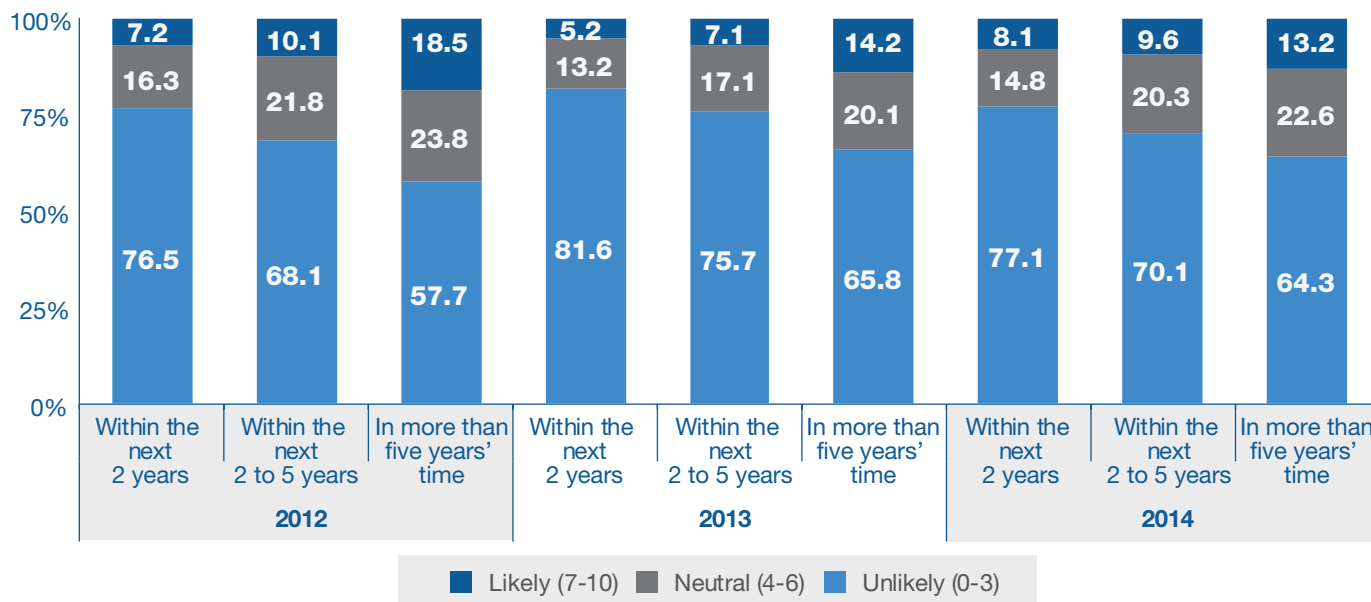
This shift in behavioural profile is likely to lead to greater opportunity for advisers servicing the SMSF sector, given coach seekers and outsourcers are typically looking for guidance and are willing to delegate the decision making to a much greater extent than controllers, many of whom are closed to the prospect of an advice relationship.

**Consistent expectations for new SMSF establishments**

While SMSFs are not for everyone, the sector’s continued growth indicates that the popularity and awareness of SMSFs remains considerable. This is also evidenced by consistent short and medium term intentions to establish an SMSF among non-trustees.

As shown in Figure 2, around one in 10 non-trustees are likely to consider establishing an SMSF in the next two years (8.1% vs. 5.2% in 2013), in the next two to five years (9.6% vs. 7.1%) and in more than five years (13.2% vs. 14.2%).

Figure 2 – How likely are you to consider establishing an SMSF?



Close to two thirds (65.9%) of advisers also expect an increase in the number of SMSFs being established over the next 12 months, on par with 2013 (64.2%).

The sector is therefore likely to continue on a growth trajectory in the future and advisers need to adapt their business models in order to capitalise on the opportunities presented by the new breed of SMSF trustees joining the burgeoning sector.



### Advice could overcome establishment barriers

Despite the high popularity and awareness of SMSFs across superannuation members, there remain barriers to setting up an SMSF that are preventing more APRA fund members from pursuing this option.

Encouragingly for advisers, the research suggests the key barriers could be overcome with advice and assistance. The most commonly cited barriers to SMSF setups by non-trustees are not knowing enough about SMSFs (38.0% vs. 35.3% in 2013), balance size not justifying an SMSF (32.3% vs. 33.7%) and too much hassle (30.6% vs. 28.8%).

Furthermore, close to three in 10 (28.9%) non-trustees cite that SMSFs are too complicated, up slightly from 26.9% in 2013, while close to one in five (18.8%) say that they lack information to assist them in making the decision, up from 16.7% in 2013.

Notwithstanding these barriers, however, close to one in five (18.6%) non-trustees with a lack of knowledge or other constraints around setting up an SMSF would consider establishing one if an accountant or financial planner could assist them in better understanding SMSFs.

This suggests that growth in the sector could be greater if advisers play an educational role by identifying and addressing the barriers that hold some non-trustees back from setting up an SMSF.

### Half of advisers targeting new client types

Some advisers are also creating new growth opportunities for themselves by actively targeting new types of SMSF clients. Half (49.7%) of advisers are targeting new types of SMSF clients at least to some extent, an increase on 2013 (44.0%).

The most commonly targeted groups are small business owners and younger accumulators.

*“Small business owners where an SMSF makes sense (i.e. not just because they own a small business).”  
(Financial planner, Male, 9 years in practice, Vic)*

*“Accumulators from existing client referrals and existing clients at transition to retirement stage plus from existing accountants.” (Financial planner, Male, 15 years in practice, NSW)*

*“30 to 40 year old accumulators.” (Financial planner, Male, 8 years in practice, Vic)*

*“Younger generation clients interested in taking a more active interest in their own super and wealth protection.”  
(Financial planner, Male, 15 years in practice, Qld)*

Advertising and referrals, including through social media, are some of the common ways for advisers to target new types of SMSF clients.

*“Advertising, referrals.” (Accountant, Female, 19 years in practice, Qld)*

*“Asking our accountants who refer what clients they have are small business owners.” (Financial planner, Male, 9 years in practice, NSW)*

*“Seminars; referrals; impressing upon baby Boomer Parents and Gen X, that they will be providing an invaluable benefit to both their children and themselves by improving the financial literacy/acumen of the Gen Y and Z.”  
(SMSF specialist adviser (financial planner), Male, 18 years in practice, NSW)*

*“Looking at increasing profile through social media and networking connections.” (Accountant, Male, 20 years in practice, Vic)*

### Younger generations the next big opportunity?

Australia's ageing demographic continues to provide ripe pickings for those in the SMSF sector. In the last two years, more than three in 10 (30.4%) advisers claim to have experienced a more than 40% increase in demand from 41-50 year olds looking to save for retirement through an SMSF, up from 23.8% in 2013.

Overall, the large majority (72.1%) of advisers say that they have experienced an increase in demand for SMSF services from 41-50 year old clients, in line with previous years.

These findings should not be surprising as SMSFs tend to gain popularity as Australians age and grow their superannuation balance, with those in the 35-44 and 45-54 age brackets making up the majority (62.4%) of SMSF establishments according to the ATO<sup>4</sup>.

However, increased demand has also been observed among advisers from the younger generations who represent what could be the next big SMSF opportunity for advisers.

In the last two years, close to two thirds (65.7%) of advisers have seen a growing demand from 31-40 year olds, in line with 2013 (66.2%), while more than one in five (21.7%) have experienced an increase in demand from 20-30 year olds, down slightly compared to 2013 (34.4%).

### Advice proposition for younger trustees – 'one-stop-shop'

The younger generations are showing growing interest in SMSFs and are increasingly demanding SMSF services from advisers. By analysing the needs of younger trustees, advisers can formulate an advice proposition that best targets these younger Australians as SMSF clients.

The majority of younger trustees do not currently have an adviser and hence may not be receiving the advice and support they need across most aspects of running their SMSF. More than two thirds (68.0%) of trustees aged 20-30 and more than half (52.9%) of those aged 31-40 are not currently receiving financial advice.

Indeed, younger trustees are the most likely to find most SMSF-related tasks challenging, particularly keeping up with compliance, which is cited by three quarters (75.0%) of trustees aged 20-30 and close to half (46.9%) of those aged 31-40 as challenging.

Given the breadth of advice and support services that they are likely to require, three quarters (75.0%) of trustees aged 20-30 and more than half (53.6%) of those aged 31-40 who derive their asset allocation and investment strategies with support from an adviser say that they prefer to have one professional services relationship that covers all their needs. These findings indicate that demonstrating a 'one-stop-shop' value proposition is likely to work best for advisers in attracting the younger generations as SMSF clients.

### Advice key to capitalise on growth opportunities

Advisers are in a prime position to capitalise on the growth opportunities that are present in the SMSF sector as existing and potential trustees seek advice, education and support from them.

The first major challenge for advisers, however, lies in attracting the large proportion of trustees and non-trustees who do not currently have an adviser. Close to half (47.2%) of trustees are currently unadvised, while a greater proportion of non-trustees do not currently have an adviser (70.5%).

A lack of trust is a major reason why trustees particularly do not currently have an adviser. Unfortunately, misselling scandals in financial planning and cases of poor advice that have consumed the media in recent months are likely to have fuelled this sentiment and adversely impacted perceptions of trust in financial planning.

<sup>4</sup> ATO Self-managed super fund statistical report – September 2014

More than one third (36.7%) of unadvised trustees think that advisers just try to sell products that benefit themselves, while close to three in 10 (29.4%) say that they cannot trust advisers with their lifetime savings, compared to 31.7% and 26.4% respectively among unadvised non-trustees.

Advisers can differentiate and position themselves as a trusted partner by focusing on promoting the aspects of an adviser that are considered most desirable among would-be advice seekers, as detailed below.

### Tapping into the unadvised

As illustrated in Figure 3, the most desirable traits of an adviser are investment expertise (with an average ranking score of 7.4 out of 10), recommendation or trusted service and recognised professional qualifications (both 6.9). These are largely similar across trustees and non-trustees, and are consistent with previous years.

Advisers who demonstrate strong investment expertise, establish themselves as trusted partners via a strong referral process and higher professional qualifications, will be better placed in attracting unadvised Australians as clients.

Figure 3 – What do you look for in your main professional adviser? Please rank the top characteristics in order of importance, where 1 = most important to you.

	Trustees			Non-trustees			Overall		
	2012	2013	2014	2012	2013	2014	2012	2013	2014
Investment expertise	6.8	7.2	7.3	7.1	7.4	7.4	7.0	7.3	7.4
Recommendation or trusted service	7.1	6.6	6.8	6.4	7.1	7.0	7.1	6.9	6.9
Recognised professional qualifications (SSA, CA, CPA, CFP)	6.8	6.6	6.9	6.9	6.8	6.9	6.9	6.7	6.9
Business reputation	6.9	6.4	6.5	6.7	6.7	6.1	6.8	6.6	6.4
Track Record	6.2	6.5	6.3	6.5	6.6	6.8	6.4	6.5	6.5
Rapport of the financial adviser	6.9	6.5	6.3	7.2	6.5	6.0	6.6	6.5	6.2
Suitable fee structure	6.1	6.0	6.4	6.1	6.3	6.5	6.1	6.2	6.4
Independence (i.e. not aligned with an institution/product provider)	6.9	6.8	6.9	5.8	5.7	6.0	6.2	6.1	6.5
Professional body membership (e.g. SPAA, CPA, ICAA, IPA, FPA)	5.8	6.0	5.9	6.0	6.0	6.0	5.9	6.0	5.9
Client testimonials	3.9	4.3	3.8	4.1	4.1	4.1	4.0	4.2	3.9
Brand	2.6	3.1	2.9	3.2	3.0	3.2	3.0	3.0	3.0

### Referrals paramount in SMSF client acquisition

Moves underway by the government and industry bodies to raise adviser education standards could help alleviate question marks over trust among unadvised Australians, encouraging a greater number to take up financial advice.

However, while education is important, advisers who are proactive in achieving referrals and recommendations will maximise their chances of attracting SMSF clients, given the trust that consumers tend to place in family and friends. Referrals and recommendations open up trusted channels to a large proportion of trustees who say that finding good professional advice is very challenging (43.0% vs. 40.6% in 2013).

Furthermore, advisers continue to see referrals and recommendations as crucial channels in acquiring new SMSF clients. Compared to 2013, advisers are more likely to have sourced SMSF clients from client referrals (83.8% vs. 72.1%).

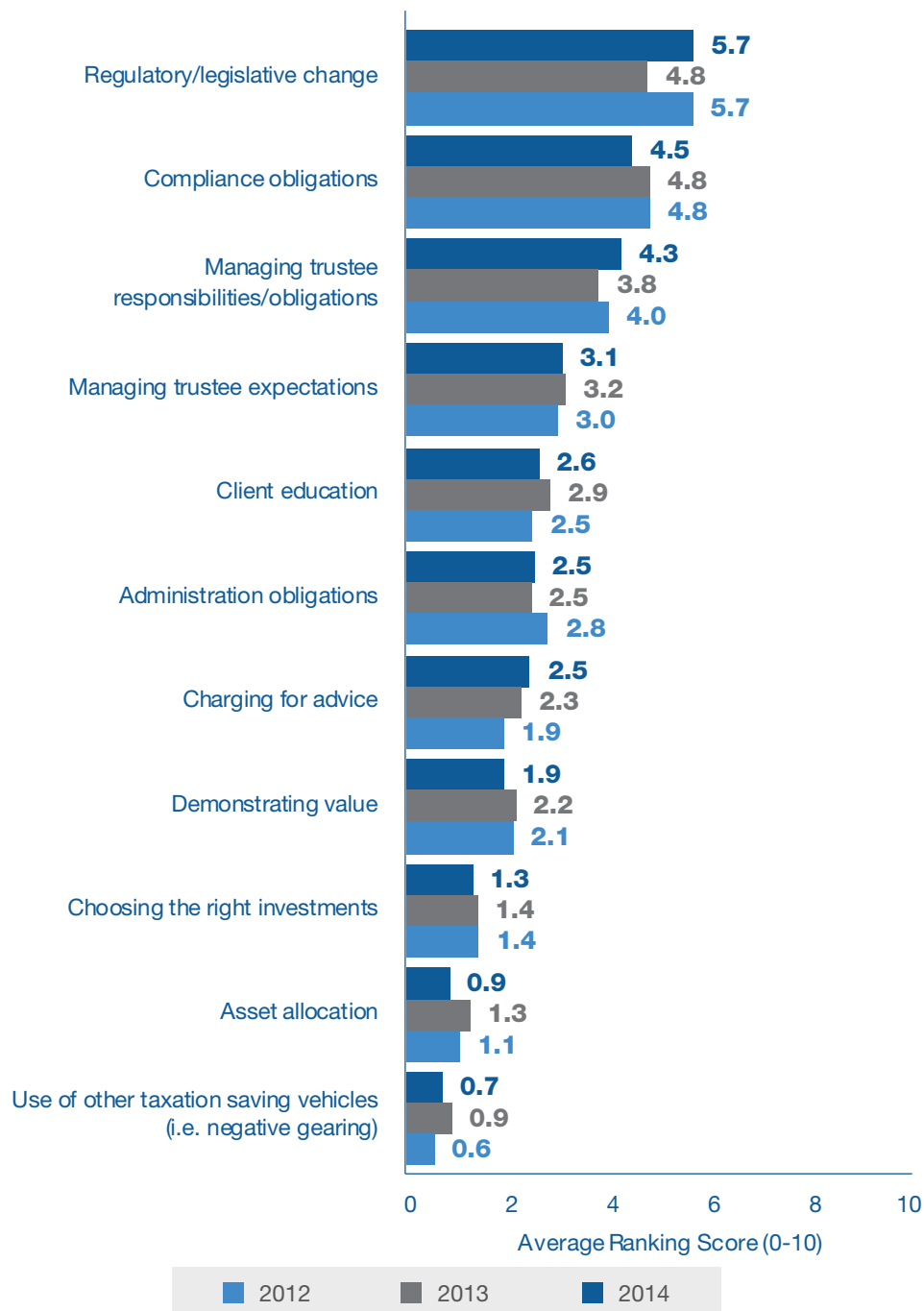
Professional referrals, including from external accountants or mortgage brokers, also remain an important source of new SMSF clients despite fewer advisers saying that they source SMSF clients this way (66.9% vs. 79.8%).

### Client contact to drive engagement

Another major challenge for advisers in taking advantage of the growth opportunities in the SMSF sector lies in their day-to-day dealings with existing SMSF clients.

Figure 4 reveals that advisers most commonly cite regulatory/legislative change and compliance obligations as the greatest challenges they face in advising SMSF clients, with an average ranking score of 5.7 and 4.5 out of 10 respectively, compared to 4.8 for both in 2013.

Figure 4 – What do you perceive as the greatest challenges in advising SMSF clients? Please rank your top 5, where 1 = the greatest challenge.





However, interaction with trustees is proving to be a headache for some advisers, with managing trustee responsibilities/obligations (4.3) and managing trustee expectations (3.1) the next most commonly cited challenges for advisers.

Illustrating the challenge that advisers face in interacting with trustees, the frequency of direct contact over the phone or face-to-face with the typical SMSF client has fallen compared to previous years.

While close to three in five (59.1%) advisers are in direct contact with the typical SMSF client quarterly or more frequently, this is down from 72.4% in 2013. The reduced direct contact poses a real threat to the likelihood of clients maintaining an ongoing relationship, given the high correlation between frequency of contact and loyalty and engagement.

Separate CoreData research conducted in 2014<sup>5</sup> suggests that direct contact frequency is strongly linked to engaging and maintaining advice relationships with clients and that the length of advice relationship is not an indication of future retention. Advisers therefore need to lift the direct contact frequency with their SMSF clients in order to foster engagement and loyalty.

### **SMSF practices growing**

While research points to a need for advisers to spend more time with clients, it appears that they will have increasingly less time to do so as the number of clients being serviced by SMSF advice practices has increased compared to previous years.

Advisers provide advice on and/or administer on average 101 SMSFs, up from 73 in 2013 and 74 in 2012. Coupled with the growing burden associated with regulatory/legislative change and compliance obligations, advisers may increasingly struggle to manage their SMSF clients' expectations without adequate support from licensees, industry bodies and other providers.

Separate CoreData research<sup>6</sup> found that Australian advisers spend an average of 10.3% more of their time on general administration and compliance work than their peers in other countries, which amounts to nearly 205 hours or 5.5 working weeks a year that could be better spent growing their business by managing existing clients and seeking new clients.

The reality of the typical adviser's day-to-day operations opens up opportunities for SMSF software and other technology providers to help ease the compliance pressure on advisers and allow them to spend more time building trust and deepening relationships with existing SMSF clients.

### **Tax and compliance advice increasingly offered in-house**

Advice on tax (44.2% vs. 40.1% in 2013) and compliance (34.4% vs. 41.1%) are in high demand among SMSF trustees, with trustees most commonly turning to financial planners or accountants for help with investments, strategic and compliance decisions.

While around a quarter say that they make investment and strategic decisions themselves without help from anyone else, compared to 2013, trustees are less likely to be making these decisions on their own and are increasingly turning to advisers to help them.

That compliance is a highly sought after area of advice and expertise is consistent with the finding that more than two in five (40.9%) trustees say that keeping up with compliance is very challenging, up from 31.8% in 2013. Compared to 2013, trustees are also more likely to be looking for professional advice or assistance on investments (26.3% vs. 11.7%).

Figure 5 reveals that the activities advisers most commonly perform as part of their SMSF offer are SMSF structuring/strategy advice (76.7%), SMSF establishment (76.5%) and administration (68.6%). Compared to 2013, advisers are more likely to be offering in-house SMSF establishment (76.5% vs. 68.4%) and administration (68.6% vs. 51.5%) services.

<sup>5</sup> CoreData Keys to Growth Report 2014

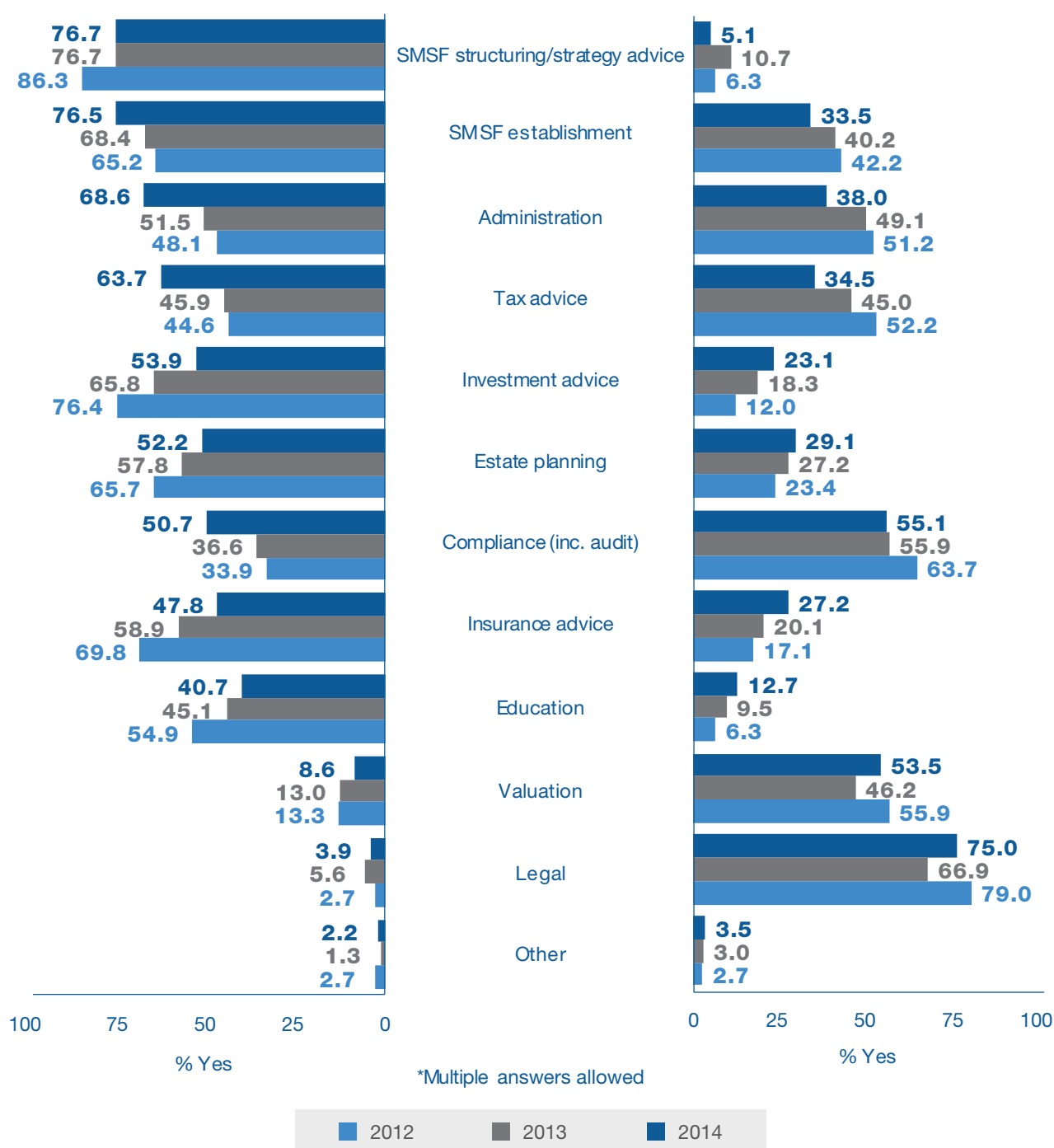
<sup>6</sup> CoreData Adviser Business Efficiency Report 2014

On the other hand, legal work is the most commonly outsourced activity among advisers who outsource at least one aspect of their service offering (75.0%), up from 66.9% in 2013.

Overall, when compared to previous years, advisers are becoming less likely to outsource most SMSF-related activities and more likely to offer these services in-house. In apparent recognition of the two services that are most in demand among trustees, more than three in five (63.7%) advisers offer tax advice in 2014, up from 45.9% in 2013, while more than half (50.7%) provide compliance services, up from 36.6% in 2013.

There are several notable exceptions, namely insurance advice, investment advice, valuation and legal, all of which are more likely to be outsourced by advisers compared to 2013.

Figure 5 – Which of the following activities do you perform as part of your SMSF service offer? (LHS) | Which of the following activities do you outsource to a third party? (RHS)



However, the higher proportion of advisers outsourcing insurance and investment advice is driven almost entirely by accountants, the majority of whom do not offer these services as part of their traditional business model and have perhaps opted not to offer these services given the new licensing requirements. Furthermore, valuation and legal services are more specialist in nature and are hence not offered as part of the core service offer by the overwhelming majority of advisers.

Advisers who offer the services that are most in demand from trustees and those who are better able to demonstrate expertise and the value of their service offering are more likely to be able to take advantage of the growth opportunities that are present in the SMSF sector.

### **Accountants poised for growth**

Tax and compliance advice, the two services that are most in demand among trustees, are substantially more likely to be offered by accountants than financial planners.

Nine in 10 (90.1%) accountants provide tax advice as part of their SMSF service offer, compared to just 35.2% of financial planners, while seven in 10 (70.3%) accountants offer compliance services, compared to just 26.9% of financial planners. Financial planners are considerably more likely than accountants to outsource tax advice (57.2% vs. 2.5%) and compliance services (72.2% vs. 32.5%).

Although these findings are largely a reflection of their traditional business models, as accountants are more likely than financial planners to be offering the services that trustees need the most, accountants are better placed than financial planners in capitalising on the growth opportunities present in the SMSF sector.

### **Opportunities for financial planners in business model transformation**

In order to thrive in the face of increased competition from accountants under the new licensing regime, financial planners may need to further diversify their service offering and provide tax advice and compliance services in-house, given that these are the two services that are most sought after by trustees.

Offering more services as part of a transformation of their business model could be crucial for financial planners to grow, given that more than half (50.4%) of trustees who derive their investment and asset allocation strategies with support from an adviser prefer to have one professional service relationship that covers all of their needs – a ‘one-stop shop’ – up from 46.5% in 2013.

**Knowledge is power**



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# Knowledge is power

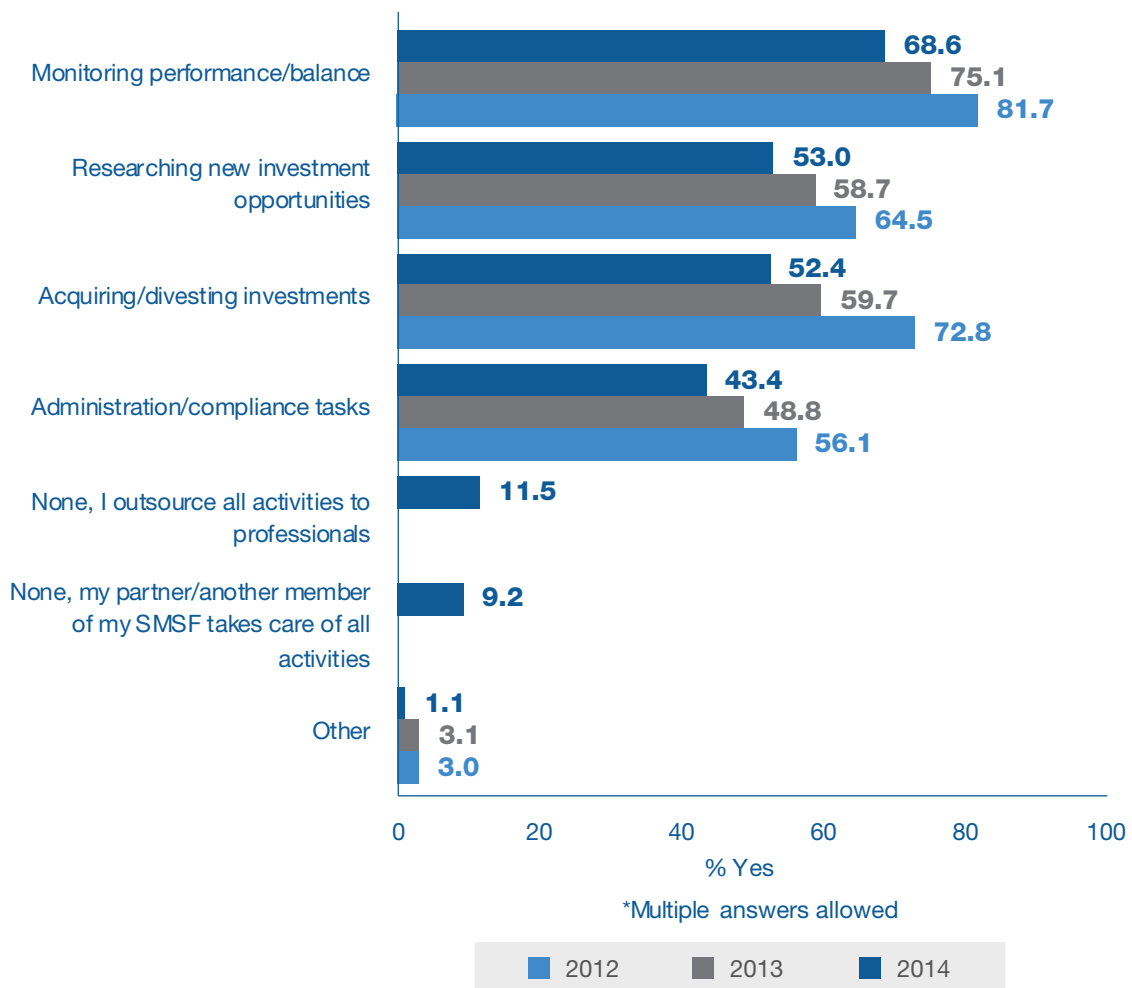
## Trustees increasingly ‘hands off’

With their knowledge and expertise on SMSFs, advisers contribute to the lifeblood of the SMSF sector. And with a myriad of decisions, obligations and rules associated with managing an SMSF, trustees recognise that knowledge is the key to success in running an SMSF.

Compared to previous years, trustees are becoming less personally involved across all tasks related to their SMSF and are increasingly relying on others with greater knowledge, particularly advisers, to do these tasks for them.

Figure 6 shows that compared to 2013, trustees are less likely to be personally involved in monitoring their SMSF’s performance/balance (68.6% vs. 75.1%), researching new investment opportunities (53.0% vs. 58.7%) and acquiring/divesting investments (52.4% vs. 59.7%). The majority (56.6%) of trustees are also not personally involved in administration/compliance tasks, up from 51.2% in 2013.

Figure 6 – Which of the following activities are you personally involved in for your SMSF?



This finding is in line with the shift in trustee behavioural profile within SMSFs, with a greater proportion of coach seekers and outsourcers entering the sector who are amenable to advice.

While still a minority, there has been a rise in the proportion of trustees classified as outsourcers (15.0% vs. 11.9% in 2013), and more broadly, trustees are increasingly finding various SMSF tasks challenging.

Compared to 2013, trustees are more likely to say that keeping up with compliance is very challenging (40.9% vs. 31.8%). More than one third (34.5%) say that researching investments and products is very challenging, up slightly from 33.3% in 2013, while more than three in 10 (31.0%) say that finding the time to dedicate to managing their SMSF is very challenging, up from 27.1% in 2013.

For the majority (52.8%) of trustees that currently have a financial adviser, the presence and influence of an adviser or at least the knowledge that an adviser could assist has helped them in running their SMSF, despite the time constraints and other challenges they face.

Reinforcing the trend that trustees are becoming more ‘hands off’ in managing their SMSF, trustees are also increasingly sharing the decision-making on financial matters related to their SMSF with others.

Less than two in five (38.0%) trustees usually make all the financial decisions regarding their SMSF, down from 40.8% in 2013. Close to three in 10 (29.5%) share the decision-making with their spouse who is a member of the SMSF, up from 25.5% in 2013, while more than one in five (22.2%) share the decision-making with their adviser, on par with 2013 (24.2%).

There is a greater likelihood that male trustees will make more financial decisions regarding the SMSF than female trustees. This is more likely to apply to younger trustees as there is a higher probability they do not have a financial adviser. The majority (54.8%) of Generation Y trustees usually make all the financial decisions about their SMSF, compared to 40.2% of Generation X trustees, 34.4% of Baby Boomer trustees and 39.4% of Pre-Boomer trustees.

### **Majority have a written investment strategy**

In simple terms, the investment strategy is a plan of how SMSF trustees will invest the fund’s assets to achieve the fund’s objectives, and is a critical component of any SMSF. Not only is it a legal requirement under the Superannuation Industry (Supervision) Act 1993, but getting it wrong, or not having a clear strategy, could negatively impact the trustee’s retirement savings.

The ATO recommends that an investment strategy be in writing so that trustees can show that their investment decisions comply with the strategy and the rules.

The majority (52.6%) of trustees claim to have an investment strategy in writing, while three in 10 (29.9%) leave their investment strategy to their adviser.

Male trustees are considerably more likely to have their SMSF investment strategy in writing (61.3% vs. 39.7%), while female trustees are more likely to let their adviser take care of the written strategy (42.9% vs. 21.1%).

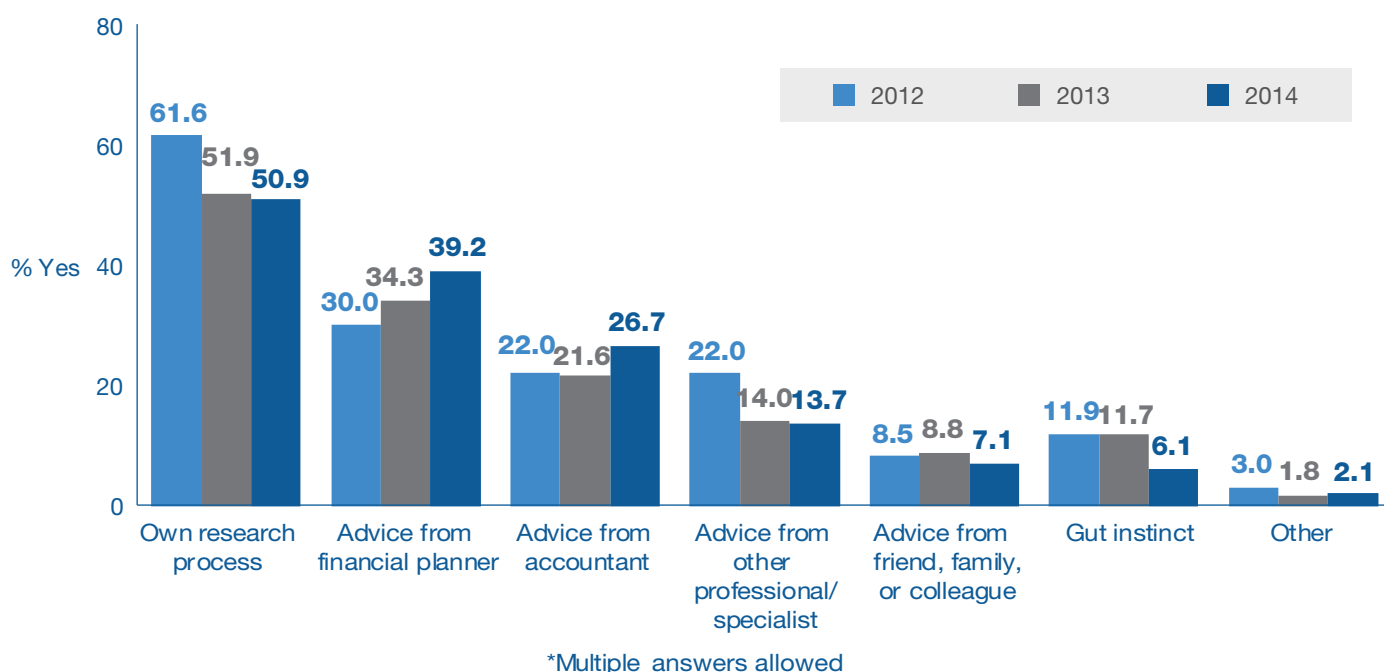
However, close to one in five (17.5%) trustees could be exposing themselves to investment and legal risks by not having an investment strategy or by only having it memorised rather than written down. More than one in four trustees could also be exposed to further investment risks by not having clear investment performance goals. One in six (16.7%) say that they do not have investment performance goals, while one in 10 (9.8%) say that theirs are a little vague.

### **Trustees turning to advisers for investments**

Trustees still ‘call the shots’ when it comes to the investment and asset allocation strategies of their SMSF, but they are increasingly relying on advice from advisers to derive these strategies and investment expertise remains the most sought after trait of an adviser.

Figure 7 reveals that while more than half (50.9%) of trustees derived their investment and asset allocation strategy for their SMSF through their own research process, in line with 2013 (51.9%), close to two in five (39.2%) relied on advice from a financial planner, up from 34.3% in 2013. Furthermore, more than one in four (26.7%) relied on advice from an accountant, up from 21.6% in 2013. However, it appears that even those trustees who are seeking advice from an adviser are still guiding the investment and asset allocation strategy of their SMSF to some extent.

Figure 7 – How did you derive your investment and asset allocation strategy for your SMSF?



Four in five (80.1%) advisers say that these strategies are directed by the trustees at least to some extent, with 38.9% saying that they are directed almost entirely or to a large extent by the trustees, up from 31.7% in 2013. The asset classes in which trustees are most likely to have some input, according to advisers, are residential property (73.9%), commercial property (65.2%) and term deposits (64.0%).

These findings should not come as a surprise given the nature of an SMSF allows trustees to have a bigger say in how their super savings are invested than an APRA-regulated fund. Furthermore, an SMSF is recommended by the large majority (77.8%) of advisers for precisely this reason – greater control over investments.

From the adviser’s point of view, decision-making around products and asset allocation for SMSF clients is increasingly driven by strategic planning/direction for the client (76.3% vs. 59.2% in 2013), client preferences (56.3% vs. 46.7%) and the client’s life stage (55.1% vs. 50.3%).

### Younger trustees need education on obligations

Greater reliance on professional advice is no doubt a positive step for the SMSF sector and the financial advice industry. However, while it may provide trustees with peace of mind that their SMSF is under expert care, they need to bear in mind that they are legally the ones with the ultimate responsibility for their SMSF.

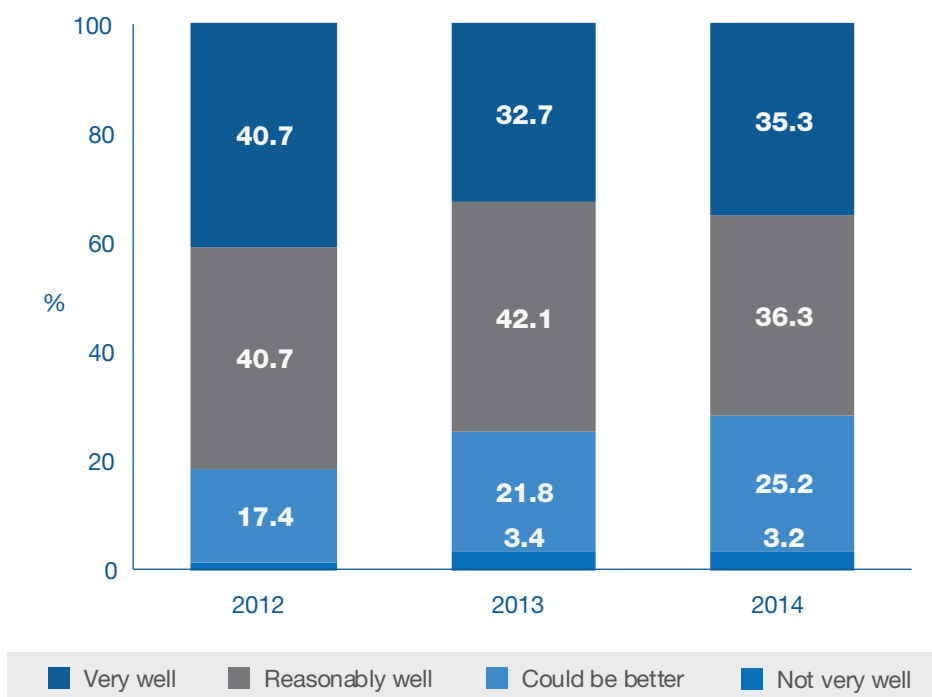
Unfortunately, understanding of trustee roles and responsibilities has been marginally declining in recent years, potentially due to a greater propensity to rely on a professional. Figure 8 shows that while the large majority of trustees understand their roles and responsibilities reasonably or very well, the proportion of trustees who do not fully understand their roles and responsibilities is on the rise.

Close to three in 10 (28.4%) trustees rate their level of understanding as ‘could be better’ or ‘not very well’ when asked how well they feel they are able to understand their roles and responsibilities in respect to their SMSF, up from 25.2% in 2013 and 18.5% in 2012.

A potential explanation is that close to one third (32.6%) of trustees say that understanding trustee roles and responsibilities is very challenging, up from 28.1% in 2013 and 22.7% in 2012.

Younger trustees are the least likely to have a good grasp of their roles and responsibilities. Close to two in five (38.1%) Generation Y trustees rate their level of understanding as ‘could be better’ or say ‘not very well’, with more than three in five (61.0%) finding the task very challenging, substantially higher than the proportion of Generation X trustees (25.6%), Baby Boomer trustees (31.1%) and Pre-Boomer trustees (29.4%).

Figure 8 – How well do you feel you are able to understand your roles and responsibilities in respect to your SMSF?



The sentiment among trustees is mirrored in the views of advisers, with less than two in five (38.5%) saying that trustees have a ‘good’ understanding of their obligations and responsibilities, in line with 37.7% in 2013. Furthermore, Figure 4 earlier in the report also reveals that managing trustee responsibilities/obligations is a greater challenge for advisers in 2014, with an average ranking score of 4.3 out of 10, up from 3.8 in 2013.

To encourage trustees to take a greater personal interest in their SMSF, the ATO introduced a new administrative directions and penalties regime for contraventions relating to SMSFs which became effective from 1 July 2014. The administrative directions and penalties include rectification directions, education directions and administrative penalties. The regime gives the ATO more power and flexibility to impose effective sanctions and, if necessary, penalise trustees.

However, half (50.4%) of trustees, after having the regime explained to them, say that the new administrative directions and penalties regime will not impact their personal interest in the operation of their SMSF. Less than two in five (37.4%) say that they are more likely to take a greater personal interest in the way the rules apply to their SMSF under the new regime.

This is concerning given the rise in the number of SMSF trustee disqualifications. The ATO Commissioner’s annual report indicates that 585 SMSF trustees were disqualified in 2013/2014, up from 440 in 2012/2013 and 295 in 2011/2012<sup>7</sup>.

Overall, although the number of trustees who may not be taking their obligations and responsibilities seriously enough is small, the findings suggest that trustees, particularly younger trustees, need to be

<sup>7</sup> ATO Annual Report 2013-14 – <http://annualreport.ato.gov.au/>



educated and reminded of the importance of understanding their duties as a trustee. And given that advisers are increasingly involved with trustees in the management of SMSFs, advisers need to play a greater role in this education process.

Apparent complacency on the part of advised trustees requires advisers to make knowledge and education of trustee clients an immediate priority, with advised trustees being more likely to rate their level of understanding of their role and responsibilities as 'not very well' or 'could be better' (32.4% vs. 24.0%).

# Risk and return re-assessed



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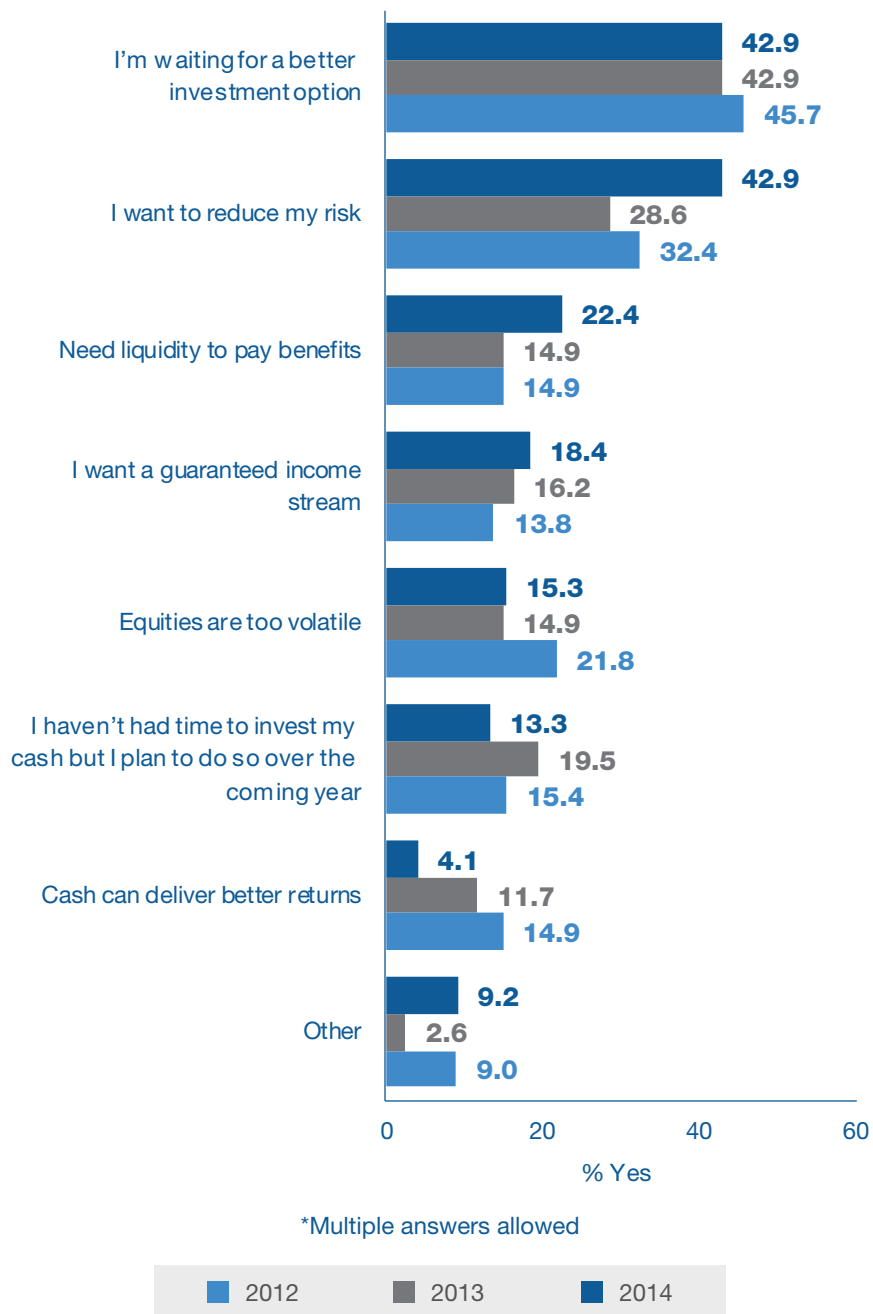
# Risk and return re-assessed

## Managing risk top of mind for trustees

Among trustees who are familiar with their SMSF investment strategy, risk is top of mind when developing the strategy. The most commonly cited factors in developing the strategy are the overall risk of the portfolio (65.8%), diversification of the fund’s investments (63.4%) and the risk of the fund’s investments (61.6%).

The prevailing attitude of de-risking is evident among trustees who allocate at least 10% of their SMSF to cash, the asset class that is universally perceived as least risky. Figure 9 reveals that trustees are increasingly using cash to reduce their portfolio’s risk, with more than two in five (42.9%) holding at least 10% of their portfolio in cash for this reason, up from 28.6% in 2013.

Figure 9 – What is the reason for your current allocation to cash in your SMSF?



### Borrowing undertaken by minority of trustees

Given the risks associated with using leverage in an investment portfolio, the vast majority (80.3%) of trustees say that they do not currently borrow or do not intend to borrow to invest in their SMSF portfolio under the limited recourse borrowing arrangement (LRBA) regime.

However, advised trustees are more than twice as likely as unadvised trustees to have borrowed or to intend to borrow under the LRBA regime (23.1% vs. 10.9%), which could be partly explained by the finding that a large majority (77.8%) of advisers provide advice on borrowing, up from 57.4% in 2013.

Among those who have borrowed, the research suggests that the average borrowing size is \$247,243, while among those who intend to borrow, the average anticipated size is \$222,214.

Overall, ATO September 2014 data shows that the size of borrowing under the LRBA regime represents less than 2% of total assets<sup>8</sup>. Given this, it is debatable whether the concerns that have been repeatedly voiced by regulators and industry stakeholders on borrowing by SMSFs, particularly to purchase property, are warranted.

For trustees who do borrow, however, taking on too much leverage within the portfolio could be detrimental to their super savings so the risks must be clearly understood and appropriately managed.

### Low cash rate driving reallocation

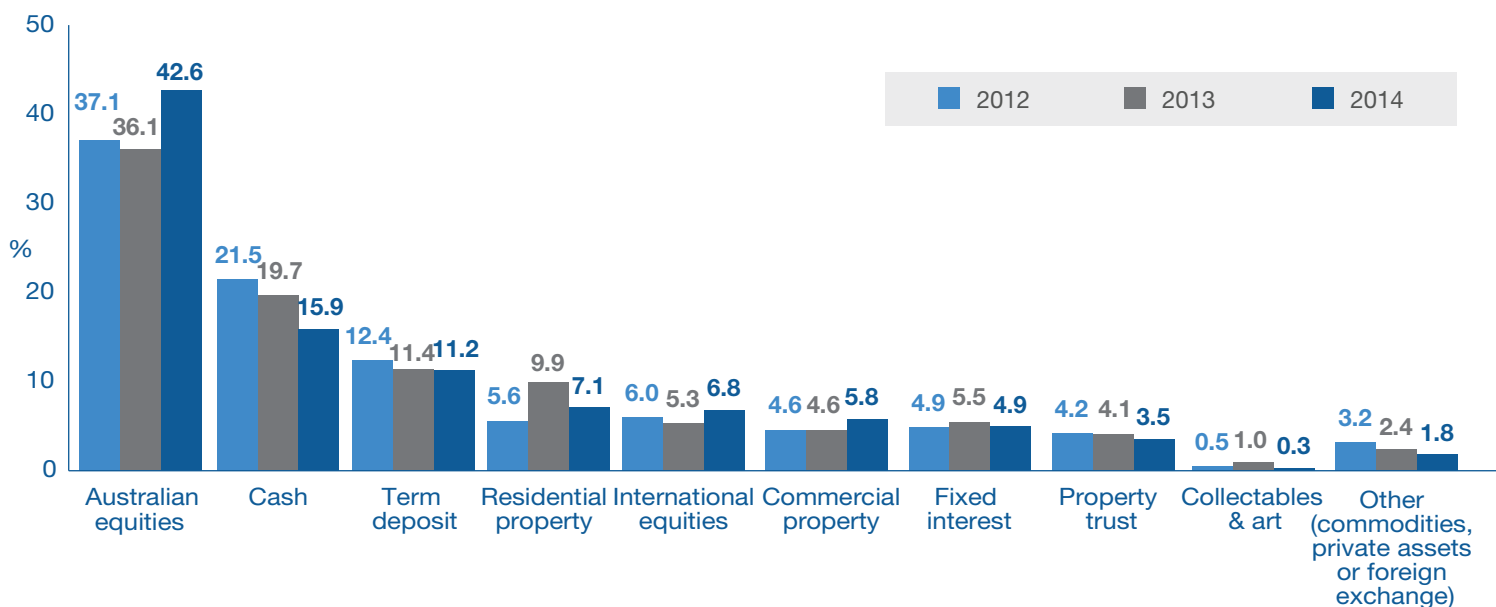
It is clear that the prevailing attitude among trustees is de-risking their SMSF portfolio and that holding a substantial proportion of cash in their portfolio is one way of doing so.

However, the record low cash rate of 2.00%, which previously remained at 2.50% from August 2013 to January 2015, has likely contributed to trustees moving funds out of cash to other asset classes, particularly equities.

Figure 10 reveals that the average proportion of cash held by SMSF trustees in their portfolio has fallen to 15.9% from 19.7% in 2013. On the other hand, the average allocation to Australian equities has risen since 2013 (42.6% vs. 36.1%).

Other notable changes include a slight decline in the average allocation to residential property (7.1% vs. 9.9%) and a marginal rise in the allocation to international equities (6.8% vs. 5.3%)

Figure 10 – Please indicate roughly how you have allocated your SMSF assets between the following areas.



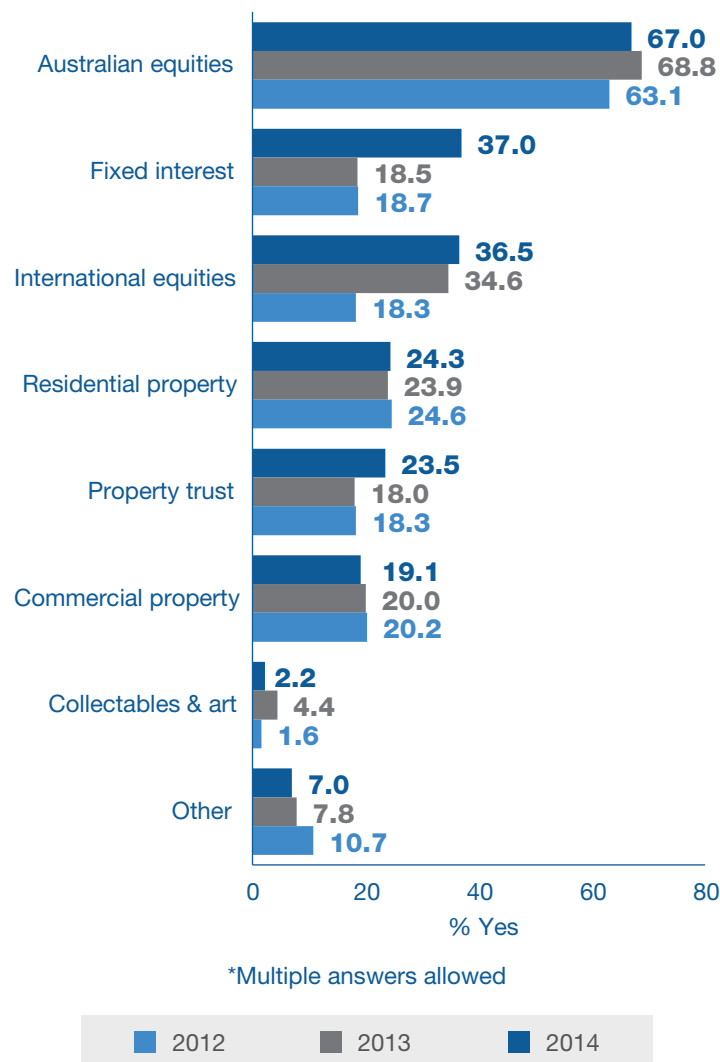
<sup>8</sup> ATO Self-managed super fund statistical report – September 2014



The record low cash rate has also meant that nearly half (49.1%) of trustees are looking at other investment alternatives to produce returns.

As illustrated in Figure 11, while these trustees continue to most commonly cite Australian equities as a likely destination for their cash (67.0% vs. 68.8% in 2013), international equities (36.5% vs. 34.6%) and bonds (37.0% vs. 18.5%) are likely to garner greater interest among SMSF trustees in the near future. The falling Australian dollar and its poor outlook have also likely contributed to the slightly increased popularity of international equities among trustees.

Figure 11 – Which other investment alternatives are you likely to look at?



Trustees recognise that holding cash is one way to de-risk their SMSF portfolio. However, they are also seeking to move funds out of cash to other asset classes that are inherently more risky in a bid to achieve better returns than those currently offered by cash. Together, these findings suggest that trustees are trying to balance their investment risk and return objectives.

**Female trustees need education on investments**

Compared to their male counterparts, female trustees are seeking investment advice and education on investment alternatives to cash. On average, female trustees hold more cash in their SMSF portfolio (18.1% vs. 15.0%) over males and are also more likely to hold at least 10% in cash in their portfolio because they are waiting for a better investment option (50.0% vs. 39.7%) compared to males. This may lead to suboptimal portfolio returns where alternatives to cash are not understood.

Beyond seeking education on alternatives to cash female trustees are also after broader education on investments given that they wish to improve their knowledge in this area.

### **Gen Y trustees need education on cash alternatives**

Generation Y trustees represent another group that is in need of investment advice and education, as their asset allocation decisions may not be optimal for their life stage.

On average, Generation Y trustees hold 26.5% in cash in their SMSF portfolio, compared to 21.8% among Generation X trustees, 15.1% among Baby Boomer trustees and 12.1% among Pre-Boomer trustees (12.1%).

The high proportion of cash held by Generation Y trustees in their portfolio is contrary to the conventional investment wisdom which advocates for a greater holding of growth assets such as equities and a lower holding of defensive assets such as cash at a younger age, given their longer time horizon to retirement.

Like trustees in general, the barrier for Generation Y trustees seems to stem from a perceived lack of investment alternatives to cash. Three in five (60.0%) Generation Y trustees hold at least 10% in cash in their portfolio because they are waiting for a better investment option, while more than a quarter (26.2%) say they do not know of any alternatives to cash.

### **Older trustees need to balance longevity and investment risk**

Older trustees likewise, are in need of greater investment education, however the focus with this demographic must be on the prudence of de-risking in retirement, given that the average allocation to equities is around half of their portfolio.

While Generation Y trustees are the most likely to hold equities in their portfolio (53.1%), older trustees also hold a relatively high proportion of equities in their portfolio, with an average of 47.8% among Generation X trustees, 48.7% among Baby Boomer trustees and 52.4% among Pre-Boomer trustees.

Older trustees are likely relying on equities to provide them with income, by investing in shares with high dividend yields, however, a portfolio that is not tailored to their life stage could jeopardise their retirement savings.

For older trustees to hold a relatively high proportion of equities could be risky as poor equities returns could expose them to longevity risk, the risk of outliving their savings, particularly given that they may not have other means, such as employment income, to make up for the loss.

In this regard, advisers have a role to play with older trustees by working with them and educating them on investment strategies that seek to balance their risk and return objectives and minimise longevity risk.

### **Art and collectibles in decline**

With the July 2016 deadline looming for new requirements around valuations and insurance on art and collectibles investments in SMSFs, the niche asset class has seen a decline and is likely to see further declines in allocation within trustees' portfolios.

Figure 10 earlier in the report reveals that trustees on average allocate just 0.3% of their portfolio to art and collectibles, down from 1.0% in 2013.

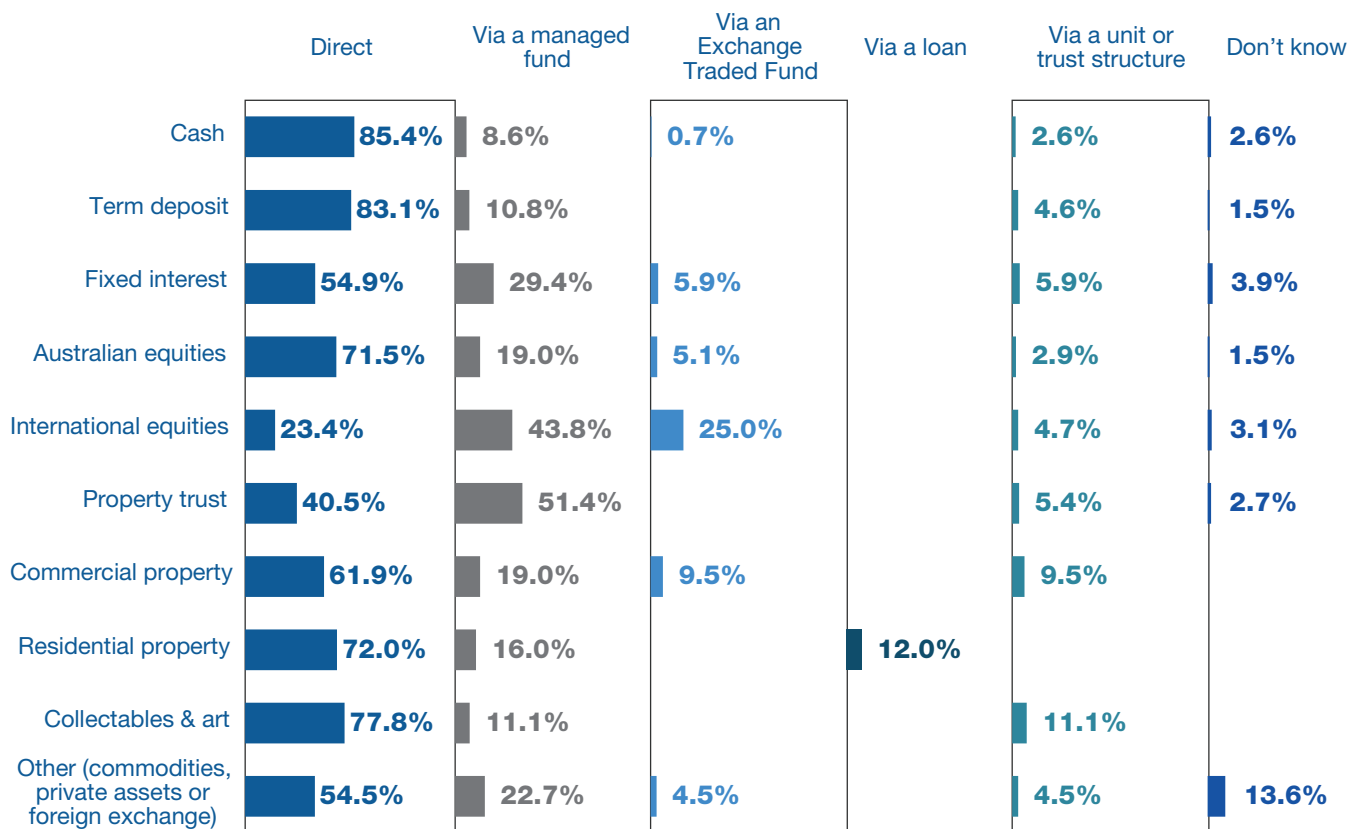
### **Bias towards direct investment**

Direct investment remains the flavour of choice among trustees and to a lesser extent, non-trustees. Trustees most commonly purchase investments directly across most asset classes, which is likely driven by their desire for greater control over their investments. Figure 12 reveals that in all but two asset classes, trustees most commonly purchase assets directly, particularly cash (85.4%) and term deposits (83.1%). Property trusts and international equities are most commonly accessed via managed funds (51.4% and 43.8% respectively).

Advised trustees, however, are more likely to be exposed to different investment vehicles with more

than two thirds (67.7%) of advisers using managed funds to invest their SMSF clients' assets, while more than two in five (43.4%) use exchange traded funds (ETFs).

Figure 12 – How do you typically buy/purchase the assets you invest in within your SMSF?



Recognising the threat posed by the SMSF sector, some APRA-regulated funds have already introduced or are mulling the introduction of a direct investment option (DIO) that allows members to invest their super directly in such assets as a limited range of equities and term deposits.

While only one in five (19.9%) non-trustees are already invested in a DIO within their fund, more than two in five (41.4%) would be interested in investing in one, suggesting that DIOs are a key part of the retention tool set for APRA funds when it comes to preventing members from setting up an SMSF.

**mFund to garner stronger interest in the long term**

mFund, the Australian Securities Exchange's settlement and reporting service which allows unlisted managed funds to be bought and sold with fund managers directly, is unlikely to garner strong take up among SMSF trustees in the short term. This is partly explained by the strong preference among trustees to purchase assets directly instead of through managed funds.

Close to half (49.7%) of advisers say they are unlikely to recommend the service and invest in an mFund product on their clients' behalf in the next 12 months, while only 26.9% are likely to do so. Financial planners are more likely than accountants to recommend the service over this period (32.8% vs. 18.3%).

Given that the service was only established in early 2014, advisers may perceive the current selection of funds available through mFund as narrow. However, if fund managers increasingly make their funds accessible through the service, particularly in asset classes that trustees most commonly access through managed funds, the takeup among SMSF trustees may lift.

Indeed, this expectation is built into the longer term views of advisers. More than two in five (40.8%) advisers are likely to recommend the service and invest in an mFund product on their clients' behalf in the next five years, with financial planners being more likely than accountants to do so (50.0% vs. 27.5%).

### **Trustee underinsurance risk overblown**

There has been a lot of focus in recent years on the underinsurance problem in SMSFs, with the then Labor Government introducing regulations in 2012 mandating that trustees consider insurance as part of their investment strategy.

Only three in 10 (29.9%) trustees have purchased insurance cover in their SMSF, in line with 29.4% in 2013. Furthermore, close to half (48.9%) trustees have no insurance coverage, up from 42.1% in 2013.

However, what is often ignored is that more than one in five (21.2%) trustees have insurance coverage either through their APRA fund or outside super, although this is down from 28.6% in 2013.

Furthermore, the large majority (71.5%) of trustees did consider, whether by themselves or with an adviser's guidance, whether their SMSF should hold insurance cover when formulating their investment strategy, largely in line with 2013 (72.7%).

This suggests that for some trustees, the decision to not have insurance in any form, is a deliberate one driven by other factors, including the life stage they are in and cost, given that the majority of trustees are older, making affordability an issue.

Close to half (48.4%) of Baby Boomer trustees and the vast majority (85.9%) of Pre-Boomer trustees do not hold insurance in any form. On the other hand, younger trustees for whom insurance would be more affordable, accessible and necessary, are considerably more likely to hold insurance in some form.

Two thirds (66.7%) of Generation Y trustees hold insurance in some form, including 42.9% who hold it through their SMSF, while close to three quarters (73.2%) of Generation X trustees hold insurance in some form, including 47.6% who hold it through their SMSF.

The oft-publicised trustee underinsurance risk is therefore overblown as it does not take into account insurance coverage held outside SMSFs and that the data is skewed by the greater underinsurance among older trustees, who make up the majority of the broader trustee population.

# Retirement preparedness



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# Retirement preparedness

## Growing confidence on retirement needs

Trustees, who are increasingly relying on assistance from professionals, manage their SMSF with the ultimate objective of having a large enough sum on which to retire.

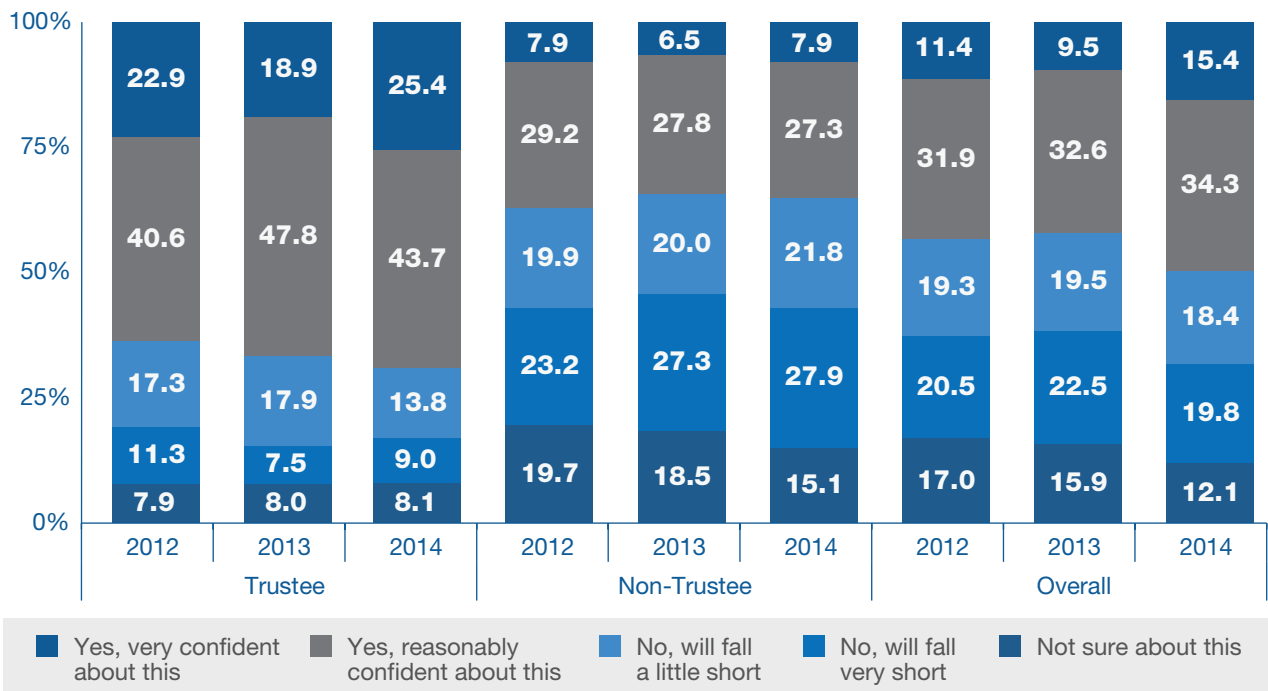
On average, trustees who have not retired think that they will need \$1,838 per week to achieve their desired lifestyle in retirement, up from \$1,611 in 2013. On the other hand, non-trustee pre-retirees anticipate needing \$1,555 per week, up from \$1,192 in 2013.

However, despite anticipating a greater amount that will be needed in retirement, trustees are more confident than ever that they are on track to achieve their target retirement income. Figure 13 reveals that close to seven in 10 (69.1%) trustees are confident that they are on track to achieve their desired retirement income, up from 66.7% in 2013 and 63.5% in 2012.

Non-trustees are considerably less likely to be confident that they are on track to achieve their target retirement income, with only 35.2% saying that they are confident, compared to 34.3% in 2013 and 37.1% in 2012.

Furthermore, trustees are considerably more likely than non-trustees to be confident in the superannuation system as a vehicle for retirement savings (68.2% vs. 41.5%).

Figure 13 – Do you think you're on track to achieve your target retirement income?

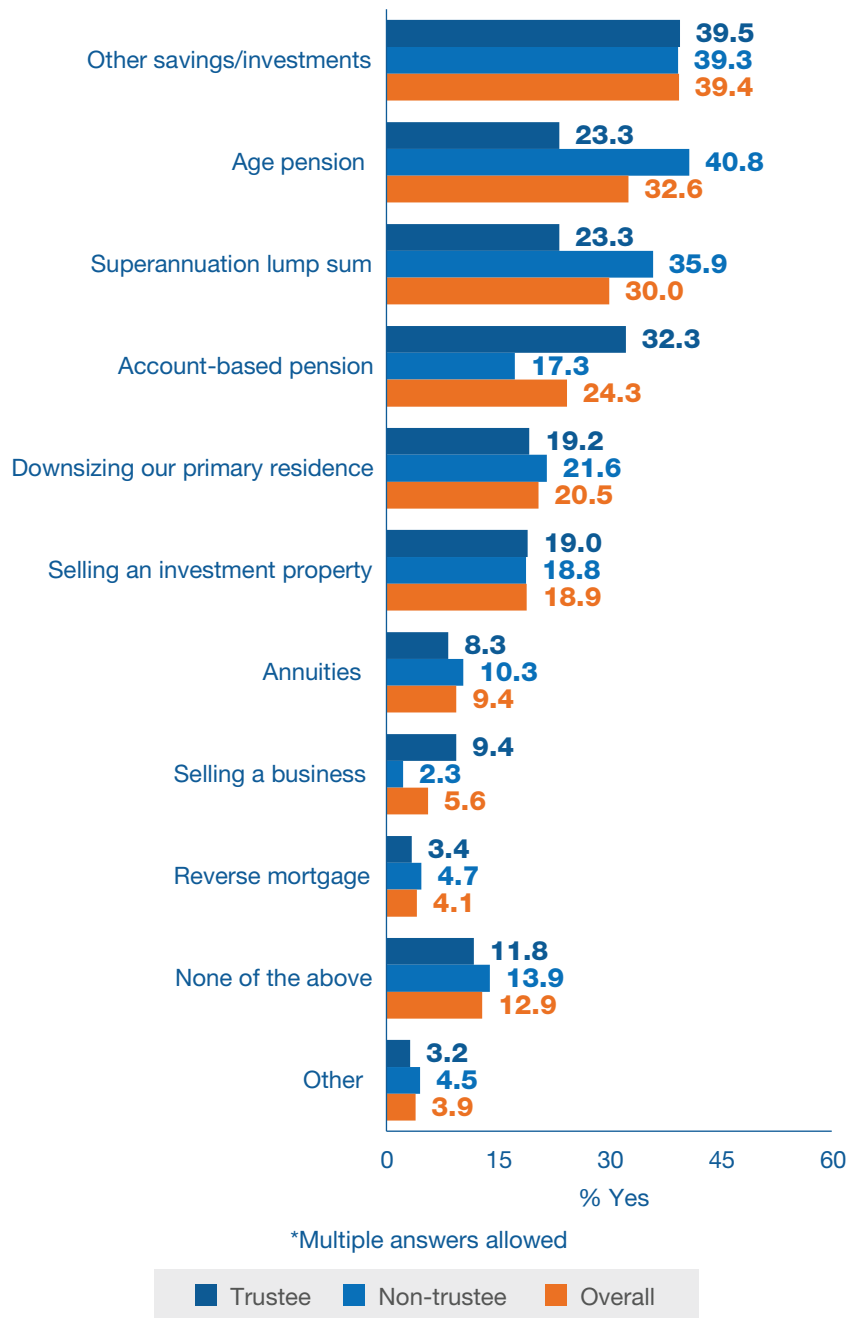


A possible factor behind the retirement confidence gap is that trustees are considerably more likely than non-trustees to be receiving financial advice (52.8% vs. 29.5%). Illustrating the value of financial advice, advised trustees are more likely to be confident that they are on track to achieve their desired retirement income (71.8% vs. 66.2%).

## Low take up of retirement income products

Figure 14 illustrates that in retirement, trustees and non-trustees most commonly cite other savings/ investments as a source of retirement income (39.5% and 39.3% respectively). Trustees are more likely to cite an account based pension (32.3% vs. 17.3%) as the strategy they currently use or plan to use to provide them with retirement income, while non-trustees are more likely to cite the age pension (40.8% vs. 23.3%) and a superannuation lump sum (35.9% vs. 23.3%) as their source of income.

Figure 14 – Which of the following strategies are you likely to use/are you currently using to provide you with retirement income?



The reliance on other savings/investments and the age pension as sources of retirement income for trustees and non-trustees is reflective of both the lack of understanding of retirement income products in Australia and a nascent retirement income market. Advisers have a role to play in educating trustee and non-trustee clients about the range of retirement income options available to them, to allow them to make an informed decision about how to manage their cash flow in retirement.

There remains, however, a need for a greater range of retirement products to help Australians manage longevity risk in their retirement.

The shift from the accumulation phase to decumulation is arguably the most transformational change confronting the SMSF sector and the broader superannuation industry over the next decade. The battle for growth will revolve around post-retirement products and services that provide members with the best chance of retiring adequately without having to rely on the government for support.

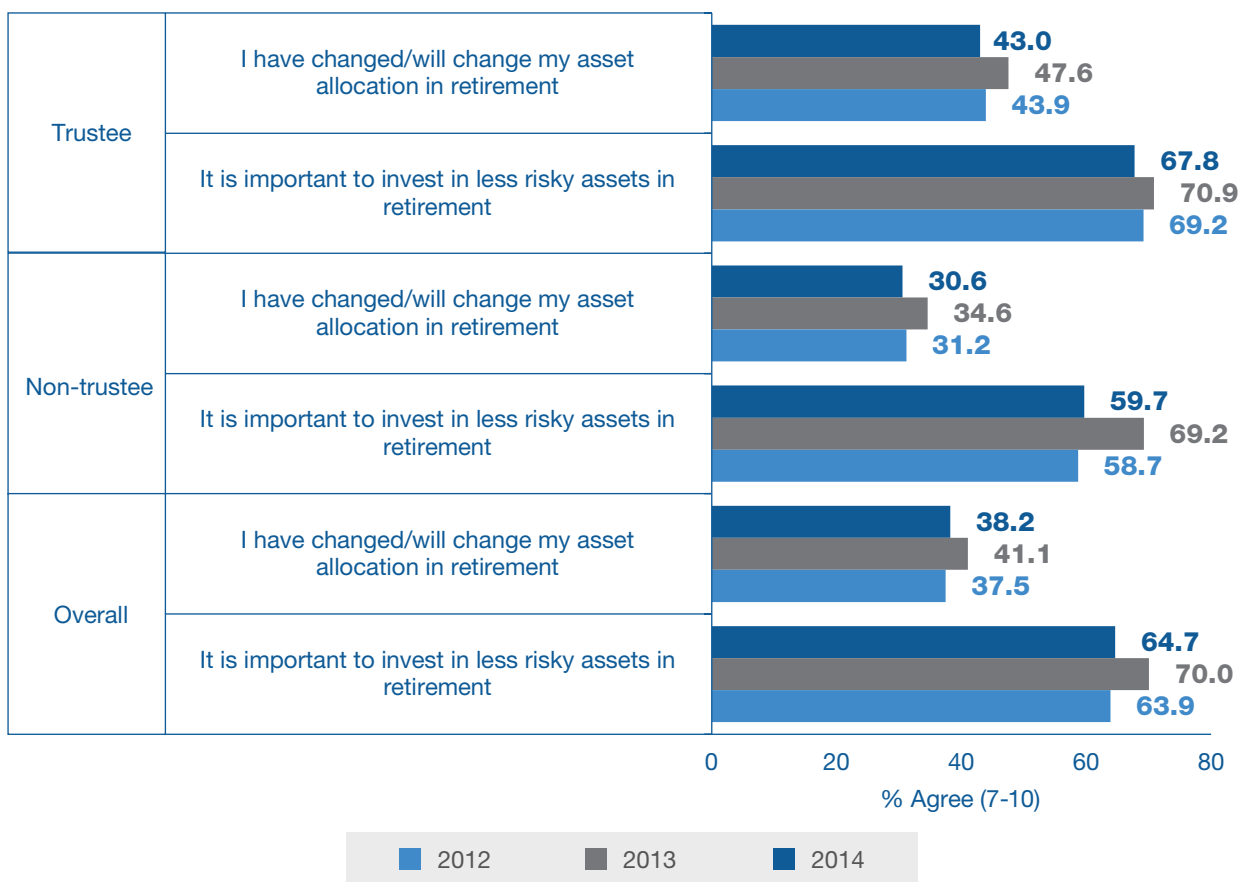
Given the sector’s size and that the majority of trustees are in the pre-retirement stage, the retirement income adequacy challenge presents an opportunity for the SMSF sector to be an innovator in providing retirement income products that can better address longevity risk.

**Longevity risk prompting growth focus**

Longevity risk is increasingly seen as a concern by trustees and non-trustees who have retired or are transitioning to retirement and this may be reflected in their less conservative views on investing in retirement.

Figure 15 reveals that compared to 2013, trustees and non-trustees are less likely to believe that it is important to invest in less risky assets in retirement (67.8% vs. 70.9% and 59.7% vs. 69.2% respectively). Trustees and non-trustees are also less likely to see a need to change their asset allocation in retirement (43.0% vs. 47.6% and 30.6% vs. 34.6% respectively) than the previous year.

Figure 15 – When it comes to investing your superannuation in retirement, to what extent do you agree with the following statements?



Those who see a need to change their asset allocation in retirement mainly cite a need for a greater focus on income in retirement.

*“At the moment my portfolio has a degree of risk because I am in growth phase. Upon retirement I will be going into defensive high yield stocks.” (Male, Trustee, 58, SA)*

*“Focus is more on stable income producing assets rather than on more risky capital growth.” (Male, Trustee, 69, NSW)*

*“Have already made some changes, like transferring funds out of international shares and reducing the allocation of Australian shares. Have placed more funds in fixed interest.” (Female, Non-trustee, 55, SA)*

On the other hand, among the majority of trustees and non-trustees who do not see a need to change their asset allocation in retirement, while they are generally happy with their existing asset allocation, some are attributing this to the need to manage longevity risk.

*“Expect long life span and need to generate growth to provide ongoing income.” (Male, Trustee, 69, NT)*

*“There is still a need for growth assets to retain purchasing power through retirement.” (Female, Trustee, 56, NSW)*

*“To combat longevity risk I need reasonable growth assets.” (Male, Trustee, 65, WA)*

Longevity risk is likely a major reason why older trustees are allocating more of their SMSF portfolio to risky growth assets such as equities, when conventional investment wisdom suggests that their portfolios should actually increase their weighting to defensive assets.

Investing too much in defensive assets may mean that the growth in their portfolio does not keep up with what is required and savings may run out earlier than anticipated. However, investing too much in growth assets means that the assets are more exposed to market volatility and may also run out earlier than anticipated.

The need to manage longevity risk reinforces the value of an adviser with investment expertise. By working with trustees and non-trustees in the years leading up to and in retirement, advisers can provide advice and education on achieving a better balance between risk and return objectives and minimising the likelihood of clients outliving their savings.

### **Pre-retirees staying in the workforce longer**

If the superannuation preservation age, the age at which individuals are allowed to access their super benefits when they stop working, was raised to 70, a sizeable proportion of those who have not retired may stay in the workforce until that age. More than two in five (42.1%) trustees and the majority (56.8%) of non-trustees are likely to remain in the workforce until age 70 if this policy was adopted.

The Transition to Retirement (TTR) pension rules were introduced to facilitate continued employment by providing flexibility, enabling preservation-age persons to reduce work hours and supplement their income with a superannuation income stream. The introduction of TTR pensions encourages the majority of trustees and non-trustees (54.3% and 55.0% respectively) who have not retired to remain in the workforce longer to some extent.

While total SMSF benefit payments have increased by 59% since 2009, payments taken as lump sums have fallen by 22% and payments taken as TTR pensions and regular income streams have almost doubled.

In the 2009 financial year, income streams amounted to 75.7% of all benefit payments from SMSFs, of which TTR income streams amounted to 9.1% of total payments. By the 2013 financial year, the proportion of income streams paid from SMSFs had increased to 93.2%, of which 11.4% were TTR pensions and just 6.8% were lump sums, compared with 13.8% of lump sums in the 2009 financial year<sup>9</sup>.

Policies that encourage older Australians to stay at work for longer might reduce longevity risk given that employment could provide income to cover for investment losses or underperformance, particularly given that the majority of Australians do not perceive any issues with staying at work for longer.

<sup>9</sup>ATO Self-managed superannuation funds: A statistical overview 2012-2013 – December 2014

# Conclusion

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While the SMSF sector as a whole is unlikely to experience absolute growth in the double digits like it has in the past, this year's *Intimate with Self-managed Superannuation* research suggests the golden years for the sector are yet to come.

The SMSF sector remains an attractive opportunity for service providers in the financial services industry, particularly financial planners and accountants given the change in the behavioural profile of trustees.

Trustees are becoming open to using professionals to assist with the management of their SMSFs and with this comes a stronger demand for various services. Indeed trustees are increasingly 'handballing' the management of their SMSF to experts, particularly advisers. Advisers and SMSF service providers who are able to recognise these changes and adjust their service offering accordingly, will be better placed to capitalise on the growth opportunities that the sector presents.

Potential growth opportunities also lie among non-trustees given the desire to set up an SMSF has remained at a fairly consistent level in recent years. The challenge for advisers is assisting these SMSF prospects in overcoming the establishment barriers, in particular their lack of knowledge and understanding of the savings vehicle.

For advisers, what is important going forward is the need to balance their SMSF growth ambitions against the risks and challenges of working with an increased number of trustees. For trustees, the focus should be on maintaining an appropriate balance between risk and return, and improving their own knowledge of their obligations and responsibilities, even as their reliance on professionals grows.

The retirement income adequacy challenge associated with longevity risk poses a problem for SMSFs and the broader superannuation industry that must be tackled as the focus shifts from the accumulation to the decumulation of funds amid the ageing population and higher expected future living costs.

Considering the sector's size and the older age profile of trustees, there is an opportunity for the SMSF sector to be an innovator in providing retirement income products that better address longevity risk for trustees. By taking a lead in this space, the SMSF sector will be well placed to maintain its coveted position as the fastest growing part of the nation's superannuation industry.



# Appendices

## Trustee Research

Gender	
Female	42.7%
Male	57.3%
Total	100.0%

Area	
The capital city of my state / territory	68.9%
A regional centre	22.3%
A rural area	8.8%
Total	100.0%

Education	
Primary	0.5%
Part of high school	7.0%
Completed high school	13.4%
Diploma or certificate qualification (inc Trades)	29.4%
Degree qualification	27.2%
Postgraduate qualification	22.6%
Total	100.0%

Employment Status	
Small business owner	14.5%
Executive	14.3%
Contractor	8.1%
Primary producer	4.4%
Retired	21.5%
Not employed at present	7.5%
Other	29.7%
Total	100.0%

Age	
21 - 30	6.6%
31 - 40	14.5%
41 - 50	19.3%
51 - 60	28.4%
60 years old and above	31.1%
Total	100.0%

State/Territory	
ACT	2.1%
NSW	29.2%
NT	0.7%
Qld	18.1%
SA	10.0%
Tas	2.5%
Vic	29.3%
WA	8.1%
Total	100.0%

Investment Portfolio	
I have no investments	8.2%
\$50,000 or less	6.9%
\$50,001 to \$150,000	12.5%
\$150,001 to \$250,000	8.3%
\$250,001 to \$350,000	9.3%
\$350,001 to \$450,000	7.8%
\$450,001 to \$550,000	5.7%
\$550,001 to \$650,000	5.6%
\$650,001 to \$750,000	3.7%
\$750,001 to \$1 million	9.2%
More than \$1 million to \$3 million	17.0%
More than \$3 million to \$5 million	3.2%
More than \$5 million	2.5%
Total	100.0%

Occupation	
Executive	4.6%
Director	4.0%
Managers and administrators	15.4%
Small business owner	7.7%
Professionals	27.6%
Associate professionals	6.1%
Tradespersons and related workers	4.1%
Clerical, sales and service workers	16.4%
Production and transport workers	1.2%
Labourers and related workers	3.6%
Primary producer	1.0%
Contractor	1.5%
Homemaker	2.8%
Other	4.0%
Total	100.0%

Household Income	
\$50,000 or less	16.9%
\$50,001 to \$75,000	17.9%
\$75,001 to \$100,000	15.9%
\$100,001 to \$125,000	13.1%
\$125,001 to \$150,000	13.3%
\$150,001 to \$200,000	10.4%
\$200,001 to \$250,000	6.0%
\$250,001 to \$350,000	4.0%
\$350,001 or more	2.5%
Total	100.0%

## Adviser Research

Gender	
Female	30.3%
Male	69.7%
Overall	100.0%

Practice location	
NSW	34.2%
VIC	27.5%
QLD	18.1%
WA	7.6%
SA	8.7%
ACT	1.6%
TAS	2.1%
NT	0.2%
Overall	100.0%

Years as adviser	
10 years or less	38.7%
11 to 20 years	38.5%
21 to 30 years	18.4%
More than 30 years	4.4%
Overall	100.0%

# Notes

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## Our Beliefs

We believe that every Australian has the right to a good quality of life in retirement.

We believe that every Australian has the right to control their own destiny.

We believe that how well we live in retirement is a function of how well we have managed our super and who has advised us.

We believe that better outcomes arise when professional advisors and trustees are armed with the best and latest information, especially in the growing and sometimes complex world of self-managed super funds.

We believe that insisting on tight controls, accrediting and educating advisers, and providing accurate and appropriate information to trustees is the best way to ensure that self-managed super funds continue to provide their promised benefits.

We believe that a healthy SMSF sector contributes strongly to long term capital and national prosperity.

We are here to improve the quality of advisers, the knowledge of trustees and the credibility and health of a vibrant SMSF community.

**We are the SMSF Association.**



# Intimate with Self-Managed Superannuation

An inaugural **annual study** of  
Self-Managed Superannuation Funds

FULL REPORT / 2011



## Welcome to the inaugural annual 'Intimate with Self-Managed Superannuation' report

*The SMSF Professionals' Association of Australia Limited (SPAA), in conjunction with Russell Investments, commissioned leading market research consultancy CoreData-brandmanagement to take an in-depth look into the world of self-managed superannuation funds (SMSFs).*

*The inaugural annual 'Intimate with Self-Managed Superannuation' report is the culmination of research conducted among Australian SMSF trustees, financial advisers and accountants, and provides an insight into Australia's fastest growing superannuation sector.*

*According to the Australian Government's Super System Review, the SMSF sector is the largest and fastest growing superannuation sector by number of funds and asset size. Some \$390 billion is now managed within the SMSF sector, equating to close to a third of Australia's \$1.23 trillion superannuation industry<sup>1</sup>. The sector's growth trajectory has been extraordinary with an annualised growth rate in the five years to 30 June 2009 of 20% compared to just 8.9% for APRA-regulated funds.*

*Given the continued importance of this sector to the future of superannuation in Australia, this research aims to delve deeper into the mindset of the SMSF trustee, including their needs, understanding, asset allocation and reliance on professional advice and other information sources.*

*Secondly, the research profiles advisers and accountants offering SMSF advice and administration to clients to identify the benefits and challenges in servicing this market, typical client profiles, profitability of SMSF clients and expected future demand from this sector.*

*From an investment point of view, the research also looks at trustees' and advisers' approach to asset allocation and the drivers behind investment choices with a view to identifying future trends in the makeup of the typical SMSF portfolio.*

*As one of the most in-depth and comprehensive studies on self-managed superannuation to date, this annual report will be used as a benchmarking tool to track the changing and evolving nature of SMSFs.*

*The findings highlight a largely robust and healthy sector poised for further growth as new investor behavioural types seek greater control and flexibility in managing their retirement outcomes.*

*We hope you find the insights as interesting as we did and we welcome your feedback on future research areas.*

**Patricia Curtin**

*Managing Director, Intermediaries  
Russell Investments*

**Andrea Slattery**

*Chief Executive Officer  
SMSF Professionals' Association of Australia Limited*

<sup>1</sup> APRA Annual Superannuation Bulletin, June 2010 (issued 19 January, 2011)

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## **Russell Investments**

Founded in 1936, Russell Investments delivers financial services, products and advice to institutional investors, financial professionals and individuals in more than 40 countries. Russell Investments mission is to improve the financial security of people and develops innovative solutions to meet the changing needs of all investors.

[www.russell.com.au](http://www.russell.com.au)

## **SMSF Professionals' Association of Australia Limited ("SPAA")**

SPAA represents professional advisers who provide advice in the highly complex area of SMSFs advice. Their core focus is to raise the standard of advice provided by all professionals within the SMSF Industry and are committed to promoting a high standard of education among SMSF professionals and assisting them to work within the regulatory framework.

[www.spaa.asn.au](http://www.spaa.asn.au)

# Snapshot

## Key points

<b>Sector poised for growth with 'coach seekers' the next burgeoning segment</b>	One in 10 respondents who do not have an SMSF say they are likely to set one up in the next two years.  'Coach seekers' make up 30% of the population but only one in four have an SMSF, presenting the biggest growth opportunity in the market.
<b>SMSF trustees outperform large super funds</b>	The average self-reported return made on an SMSF over the last 12 months is 10.7% pa (based only on those who claimed to have made a positive return), outperforming the average rate of return (ROR) for large funds which delivered 8.9% pa for the financial year to 30 June 2010 <sup>1</sup> .
<b>Trustees driven by the love of it</b>	Two fifths of SMSF trustees (40.8%) are 'controllers'; they are interested in managing their money and like doing it themselves.
<b>SMSFs trustees generally confident in super system</b>	Three in four SMSF trustees (74%) are confident in the superannuation system as a vehicle for retirement savings – significantly higher than the proportion of non-trustees who share their level of confidence (53.6%).
<b>SMSFs trustees confident about meeting their retirement goals</b>	Four out of five SMSF trustees are confident they are on track to achieve their target retirement income of around \$1,531.76 per week.
<b>Contribution cap limits has \$15.1 billion impact</b>	Around half of SMSF trustees would have contributed on average \$72,704 each to their SMSF if contribution cap limits were raised, equating to a collective contribution of some \$15.1 billion.
<b>Trustees work longer to supplement retirement income</b>	SMSF trustees have a much higher preference for remaining in the workforce post-retirement from full-time work, with more than half (53.2%) intending to work part time, compared to only 32% of non-trustees.
<b>Vast majority of trustees have efficient fund size</b>	One in four trustees (25.5%) has an SMSF balance of more than \$1 million and a further quarter (26%) claim to have a balance of between \$250,000 and \$550,000 in assets.
<b>Low trustee appetite for borrowing to invest</b>	Three in four trustees (75.6%) have not used the new borrowing rules and do not intend to do so.



<b>SMSF trustees prefer partnership approach</b>	Around one third of trustees use their adviser for ‘high level’ ideas and then make their own decisions while a further one third partially rely on them and do some of their own research. Only one in four relies on their adviser as the exclusive advice provider.
<b>Staying on top of legislation the biggest challenge</b>	The fear of legislative change among SMSF trustees is equally matched by advisers, who say their biggest challenges in providing advice to SMSF clients are compliance obligations and regulatory change.
<b>Trustees rely primarily on mainstream media when making investment decisions</b>	Around half of SMSF trustees make the majority of financial decisions based on information sourced from financial and general newspapers, magazines and/or websites.
<b>Education a key barrier for those contemplating an SMSF</b>	Nearly one third of those without an SMSF (31.9%) say they do not have one because they do not know enough about them.
<b>Trustees change tack to focus on wealth preservation</b>	Three in five (62.6%) advisers say their SMSF clients’ asset allocations have become more conservative post-GFC, while only 6.4% say trustee portfolios have become more aggressive.
<b>Investments outside SMSF are key to asset allocation</b>	While the quantitative research shows SMSF assets are highly concentrated, qualitative research suggests many trustees hold investments outside their SMSF, perceiving their fund as just one aspect of their investment mix.

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## Methodology

The inaugural annual *'Intimate with Self-Managed Superannuation'* research report is sourced from a collection of quantitative and qualitative data gathered from SMSF trustees and professional advisers between October and December 2010.

Two online surveys were developed and hosted by market research consultancy CoreData-brandmanagement following liaison with SPAA and Russell Investments.

### SMSF trustee research

#### Online survey

The trustee survey was conducted from 8 November through to 14 December 2010, the primary target being SMSF trustees. Data was also collected from members of other super funds (excluding SMSFs) and high net worth individuals without SMSFs to compare and contrast the views of trustees against APRA-regulated fund members.

Respondents were sourced from CoreData-brandmanagement's proprietary panel of more than 100,000 Australian consumers, SPAA's member network and the Seniors Association of Australia.

A total of 1,331 Australian consumers were surveyed, of whom 431 were SMSF trustees and 258 high net worth individuals (HNWIs) without SMSFs.

#### Focus group

A focus group among eight SMSF trustees was held on 6 December 2010 in the Sydney CBD. The session ran for one and a half hours and was used to develop a deeper understanding of the psyche of SMSF trustees and their future intentions.

### SMSF adviser research

#### Adviser survey

The adviser survey was conducted from 25 November through to 16 December 2010 and targeted professional advisers (including accountants) who provide advice and administration solutions for SMSF clients.

Respondents were sourced from CoreData-brandmanagement's proprietary panel of Australian financial advisers and the SPAA member network and included primarily financial planners, accountants and practice principals, as well as a small number of paraplanners, auditors and lawyers.

A total of 599 responses were recorded for this component of the research.

# Summary report

## Sector growth and trustee behaviour

### Sector poised for growth with 'coach seekers' the next burgeoning segment

The SMSF market is growing apace and financial advisers are positive about the future growth prospects for the sector. Growth has been fuelled in part by the global financial crisis (GFC), with almost half of financial advisers (46.1%) reporting a surge in the number of SMSFs being established.

According to APRA, the number of SMSFs grew by 6.5% (26,269 funds) during the 2010 financial year<sup>1</sup>. This trend is set to continue with one in 10 respondents (10.1%) who do not have an SMSF saying they are likely to set one up in the next two years. This demand is being driven by Generation X (aged 32-46 years) respondents with 15.5% of this group likely to establish one in the next two years, compared to only 9.4% of Baby Boomers.

While to date 'controllers' have been the key behavioural segment to set up SMSFs (two in five already have one), much of the potential

future growth lies in the 'coach seeker' segment. This group would rather do things themselves but need information to support their decisions – or are looking for someone to help them. The remaining group – 'outsourcers' – would rather someone else manage their money and finances, and typically pass trust to third parties when it comes to financial decision-making.

Controllers make up around 20% of the total population, outsourcers make up 50% and coach seekers some 30% – yet only one quarter of coach seekers and one in seven outsourcers already have an SMSF.

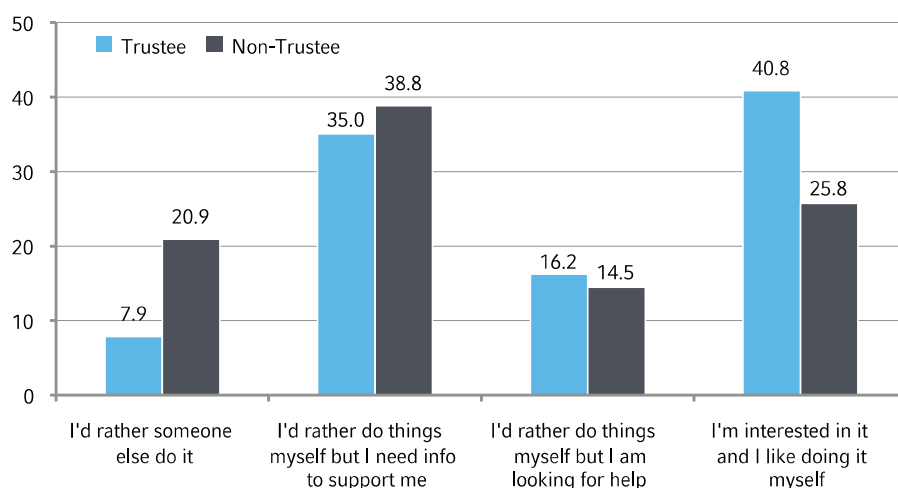
Among the coach seekers, SMSFs are already the most popular super fund type by a small margin and this group has a higher preference for use of financial advisers, presenting the biggest growth opportunity in the market.

While outsourcers make up around half of the population they have a preference for passing responsibility and decision making to a third party. Given the DIY nature of SMSFs', this group will be a tough sell in the short term.

<sup>1</sup> APRA Annual Superannuation Bulletin, June 2010 (issued 19 January, 2011)

**Figure 1 – Preferences for managing money and finances (Trustee vs Non-Trustee)**

*n = 431, respondents who have an SMSF and 994, respondents who do not have an SMSF*



### Trustees driven by the love of it

The research findings confirm SMSF trustees have a hedonistic bias towards managing their money and typically cite control as the key driver for establishing their fund. Indeed, when it comes to managing money and finances, two fifths of SMSF trustees (40.8%) could be classified as ‘controllers’; they are interested in managing their money and like doing it themselves. This helps to explain why the typical trustee spends, on average, around five hours per week managing their SMSF. The highest proportion of this time is spent researching new investment opportunities followed by monitoring the fund’s performance and balance.

The desire for control is two-fold; trustees highlight both control over their investments and control over their financial future as two key drivers for establishing their SMSF and financial advisers likewise cite these as the dominant motivators.

Not surprisingly, given the ‘controller’ nature of the SMSF trustee, there is a high correlation between owning all or part of a business and having an SMSF. According to financial advisers, on average two fifths (44.7%) of SMSF clients have small- to medium-sized enterprises (SMEs).

### Confidence in the system and retirement adequacy

#### SMSFs generally confident in super system

The element of control that SMSFs provide to trustees clearly brings with it the notion of financial security and peace of mind. Overall, three in four SMSF trustees (74%) are confident in the superannuation system as a vehicle for retirement savings – significantly higher than the proportion of non-trustees who share their level of confidence (53.6%).

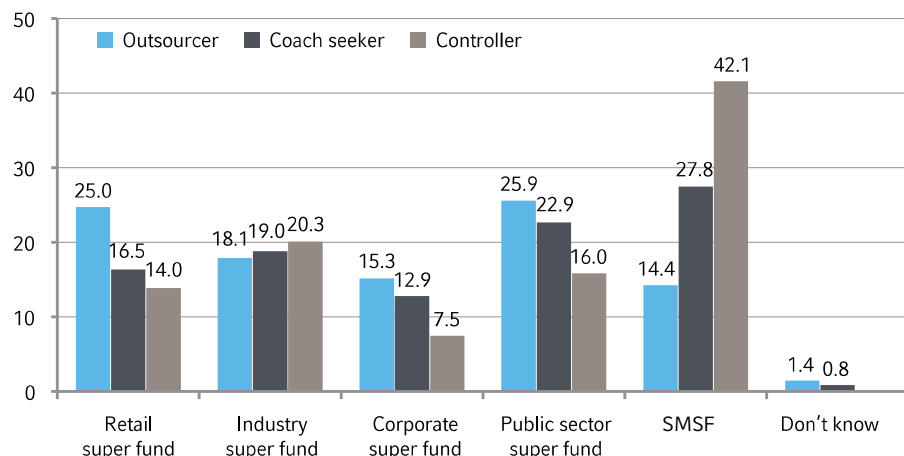
There is, however, still an underlying fear of legislative change with the qualitative research revealing the prospect of government tinkering is a considerable concern for trustees. Indeed, one quarter of SMSF trustees (26%) say they could be more confident in the system and for some trustees this apprehension is causing them to hold assets outside of their SMSF.

#### SMSFs are confident about meeting their retirement goals

While the prospect of superannuation reform has not undermined trustee confidence in their ability to achieve their retirement income, the research shows this could be due to a

**Figure 2 – Super fund membership by behavioural type**

*n = 431, respondents who have an SMSF; 258 respondents who do not have an SMSF AND are high net worth individuals; and 736 respondents who do not have an SMSF*



high propensity to supplement the SMSF with investments outside of super. Four out of five SMSF trustees are confident that they are on track to achieve their target retirement income, which on average equates to approximately \$1,531.76 per trustee, per week.

While trustees are confident they are on track, the research suggests the average SMSF would be forced to invest outside of their super fund or draw down on capital in retirement, presenting challenges for both policy makers and trustees.

### **Contribution cap limits has \$15.1 billion impact**

The retirement shortfall is not helped by the new concessional contribution cap limits, which have reduced the amount that SMSF trustees are able to contribute to \$25,000 for those members under the age of 50 and \$50,000 for members aged 50 or above. If it weren't for these restrictions, around half of SMSF trustees would have contributed extra money to their SMSF (on top of the limits allowed). These trustees would have contributed on average \$72,704 each, equating to a collective contribution of some \$15.1 billion.

### **Trustees work longer to supplement retirement income**

Encouragingly, SMSF trustees, by their controller tendencies, are considerably more likely to remain in the workforce after retirement age, providing another source from which they can draw an income. Given the SMSF sector is the largest and fastest growing, this has big implications for government policy, which has to date focused largely on the accumulation phase. Perhaps by doing more to encourage and support the SMSF sector, the government may also be encouraging more people to stay in the workforce longer.

### **Vast majority of trustees have efficient fund size**

One topic that has prompted heavy debate among government and industry is the size of balance required for an SMSF to make economic sense. According to the research, one in four trustees (25.5%) have an SMSF balance of more than \$1 million and a further quarter (26%) claim to have a balance of between \$250,000 and \$550,000 in assets. Only one in seven trustees (14.9%) claim to have an approximate balance of \$250,000 or less, suggesting that relatively few trustees do not meet the \$200,000 minimum proposed by the Government as the amount at which an SMSF begins to become economically viable.

Although adviser perceptions vary about the minimum dollar amount needed to advise a client to set up an SMSF, the average amount considered by advisers is \$241,280 – also above the \$200,000 minimum.

### **Low trustee appetite for borrowing to invest**

The Superannuation Industry (Supervision) Act 1993 was amended in September 2007 to enable SMSFs to borrow based on a number of restrictions. The research indicates that while advisers clearly see the value in borrowing through an SMSF, trustees are less convinced. Two in five advisers say they have provided advice to trustee clients on the new borrowing rules and a further 15.7% intend to do so in the future. However, three in four trustees (75.6%) have not used the rules to borrow to invest in their SMSF and do not intend to do so.

It is possible that the strict enforcement of the new borrowing rules is causing trustees to question the value of borrowing via their SMSF, although this was not specifically addressed through the research.

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## The advice proposition

### SMSF trustees prefer partnership approach

SMSF trustees have a tendency to adopt a partnership approach to the financial advice relationship, using professional advisers to support rather than outsource their decision-making. Around one third of trustees use their adviser for 'high level' ideas and then make their own decisions while a further one third partially rely on them and do some of their own research. Only one in four relies on them as the exclusive advice provider.

Less than two in five SMSF trustees (37.8%) have a dedicated adviser, again indicating advisers have work to do in convincing more trustees of the need to seek professional assistance in managing their SMSF. However SMSF trustees are more prone to having a dedicated financial adviser than members of other super funds, of which only one quarter have a dedicated adviser (26.3%). Non-aligned (independent) financial advisers are the most popular source of professional advice among trustees.

Coupled with this, the most common form of payment for advice relating to the SMSF (excluding compliance) is a fee based on the number of hours the adviser works, followed by an annual retainer or flat fee. These methods are also the most preferred methods of paying for SMSF advice.

The Future of Financial Advice (FoFA) prospective ban on product provider commission payments to financial advisers looks set to have little impact on SMSF advisers, of whom only 6.6% currently charge a fee paid by commission set by the product provider.

## Staying on top of legislation the biggest challenge

The fear of legislative change among SMSF trustees is equally matched by advisers, who say their biggest challenges in providing advice to SMSF clients are compliance obligations and regulatory change. However the third biggest challenge listed by advisers – managing trustee responsibilities and obligations – is at odds with trustee perceptions. Interestingly, the majority of trustees claim to have at least a reasonable understanding of their role and responsibilities, presenting a challenge for both advisers and the industry in convincing them of the need for further education.

## Education, tools and competencies

### Trustees rely primarily on mainstream media when making investment decisions

The partnership approach by SMSF trustees to their advice relationship and their controller nature is clearly in play when it comes to the information sources used by trustees. Financial advisers are not the first source of information SMSF trustees refer to; in fact around half of SMSF trustees make the majority of financial decisions based on information sourced from financial and general newspapers, magazines and/or websites. Currently, only two in five trustees receive information directly from their professional adviser or financial planner.

When compared to members of other super funds, trustees are considerably more likely to source information directly from broker and planner newsletters and/or directly from the ASX and listed company websites.

There is clearly a need for advisers to better articulate the value they can add and better define their value proposition to ensure trustees are seeking out information regarding their fund from the best possible source – a professional adviser.



### Advisers rely on various information sources

On the adviser side, almost three in four (72.4%) source investment information from professional research houses such as Morningstar and Lonsec while half (51.1%) conduct their own research. Slightly less (46.1%) take advantage of in-house research and just over two in five seek investment information from fund managers (43.9%). Advisers rely much more heavily on their own research regarding technical strategy than for investment strategy with professional industry bodies also used by many. Interestingly however, while more than one third (36.5%) say they are willing to pay for subscriptions to technical research, fewer than one in seven already do (13.1%).

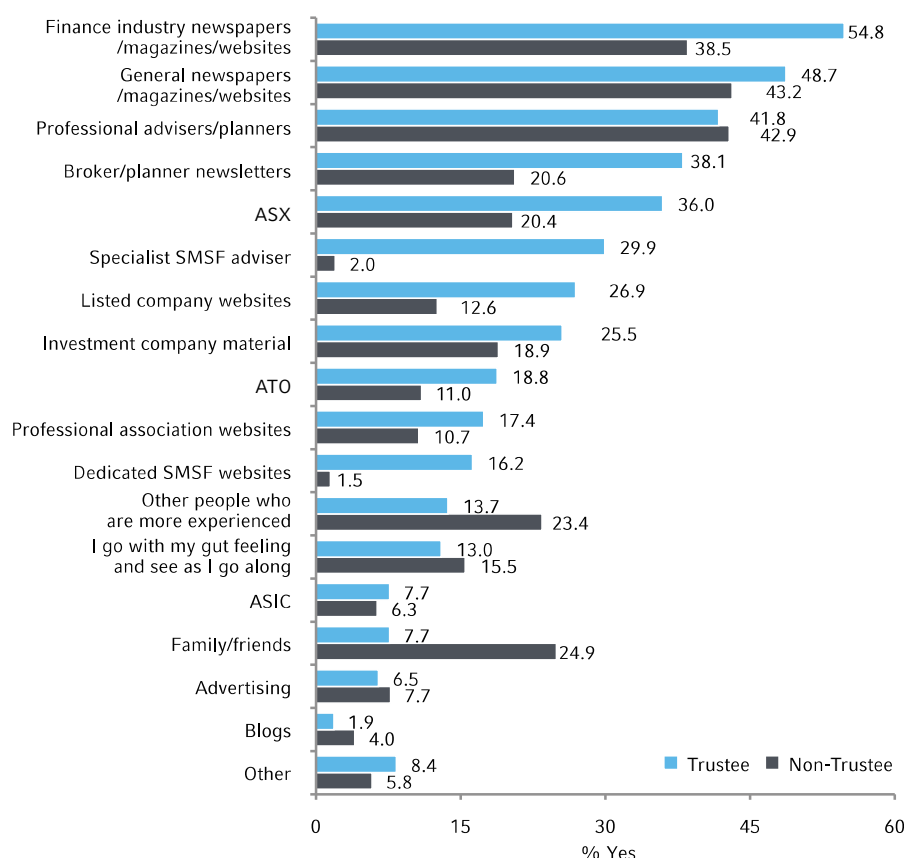
Two in five advisers actively assist trustees to self-educate (39.3%) and around half do so to some extent (48.9%). Advisers predominantly refer clients to the ATO, considerably more than any other information source.

### Trustees are largely confident about their knowledge and responsibilities

The need for trustee education is recognised by advisers. While one third of advisers (34.8%) rate trustees' understanding of their obligations and responsibilities regarding their SMSF as good, around one in five considers it to be poor (21.5%). Trustees, however, are considerably more generous in their self-assessment. Nearly nine in 10 trustees (89.6%) rate their understanding as at least reasonable.

**Figure 3 – Which information sources do you typically use to make financial decision?**

*\*Multiple answers allowed  
n = 431, respondents who have an SMSF and 994, respondents who do not have an SMSF*



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SMSF trustees who do not have an advice relationship are considerably more likely to rate their understanding of their role as trustee more highly than those with a dedicated adviser – possibly the reason why they do not feel they need the assistance of an adviser. Three in four (74.7%) trustees who have never used a financial adviser say they understand their obligations very well compared to only two in five (42.3%) trustees who have a dedicated adviser.

### **Education a key barrier for those contemplating an SMSF**

In addition to the need for raising education standards among SMSF trustees, education has also emerged as a key barrier to SMSF take-up and one that can easily be addressed by the industry. Nearly one third of those without an SMSF (31.9%) say they do not have one because they do not know enough about them. Around one third of Generation X respondents (35.2%) and Baby Boomers (31.8%) and one in five Pre-Boomers (21.1%) cite not knowing enough about SMSFs as the reason for not establishing one.

Many non-trustees – particularly the older generations – also indicated a preference for the ‘expertise and security’ of other super funds (28.2%) while not having the necessary asset size to justify an SMSF was more prevalent among younger respondents (26.5%).

These key barriers suggest that mere education of non-trustees and the ability of advisers to clearly and succinctly explain the safety of SMSFs and offer expertise could considerably boost the take up of SMSF usage.

## **Performance and asset allocation**

### **SMSF trustees outperform large super funds**

According to APRA<sup>1</sup>, the average ROR for large funds (those with more than four members) for the financial year to 30 June 2010 was 8.9%. Almost half of SMSF trustees claim to have made a return of between 5% and 10% in the last 12 months (49.5%), while a further one in four (25.8%) says they made between 11% and 20%. The average self-reported return made on an SMSF over the last 12 months is 10.7% pa (based only on those who claimed to have made a positive return).

### **Trustees change tack to focus on wealth preservation**

Since the GFC the mindset of the SMSF trustee has switched from return seeking to wealth preservation with advisers reporting SMSF clients’ portfolios are moving to a more conservative asset allocation. Three in five (62.6%) advisers say their SMSF clients’ asset allocations have become more conservative post-GFC, while only 6.4% say trustee portfolios have become more aggressive.

### **Advised trustees have clearer investment strategy**

There is a considerable correlation between trustees who use financial advisers and having a clear investment strategy in place. Trustees who receive financial advice are more likely to have clear investment performance goals and to have approached or be planning to approach their investment strategy differently at retirement.

<sup>1</sup> APRA Annual Superannuation Bulletin, June 2010 (issued 19 January, 2011)

### Trustees waiting for the right opportunity before investing cash deposits

The concentration of SMSF assets in cash and domestic equities has been the subject of debate among policy makers and is supported by this research. Trustees have, on average, two thirds (65.7%) of their SMSF invested in either cash (23.1%) or domestic equities (42.6%).

The flight to cash following the GFC has yet to unwind with some \$60 billion in surplus retail deposits remaining within the Australian banking system<sup>1</sup>. According to the qualitative component of the research, SMSF trustees are aware of their reasonably high weighting to cash and claim to be awaiting the next investment opportunity or looking to reduce risk, both of which were confirmed by the quantitative research.

Many trustees are investing portions of their wealth outside their SMSF – primarily to maintain more control over these investments – which helps, in part, to explain the concentration of assets within SMSF portfolios. The portfolio make-up could also

<sup>1</sup> CoreData-brandmanagement Australian Cash Report Q4 2010

reflect the fact that many SMSF investment strategies are client – rather than adviser-directed. In fact more than three quarters of advisers (76.2%) admit that the client has some element of control over the investment strategy and asset allocation of the SMSF.

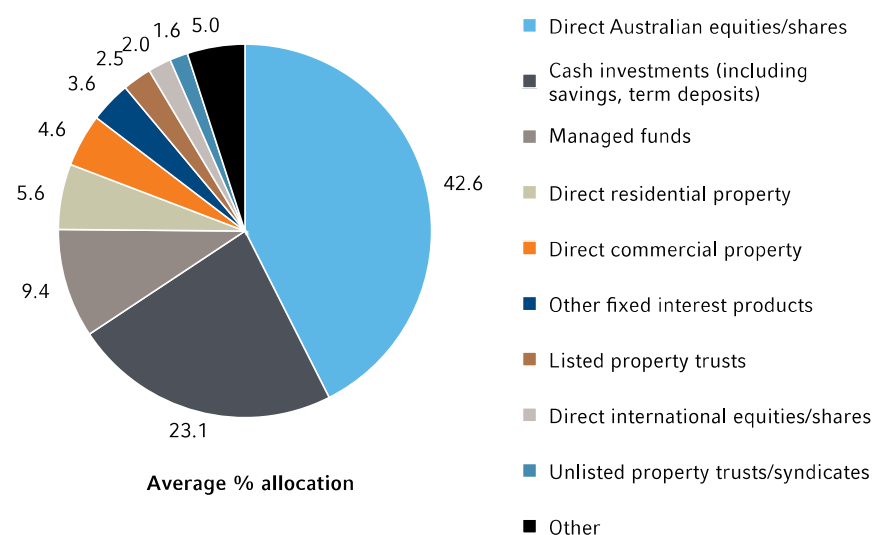
### One in four trustees relies on gut instinct to develop asset allocation

SMSF trustees are twice as likely to rely on their own research process (68.9%) than on the services of a financial adviser (34.3%) when forming their asset allocation mix – regardless of whether or not they have an ongoing advice relationship. Somewhat of a concern is the fact that one quarter of those trustees who do not seek advice (24.7%) say their strategy was derived from their gut instinct.

SMSF trustee asset allocation is considerably more concentrated than the typical non-trustee. Of the non-trustees who claim to know the asset allocation of their super fund, around one quarter (27.9%) of their collective assets sit in direct Australian shares (considerably lower than the SMSF trustee allocation of 42.6%) and a further 16.9% is in cash (compared to 23.1% for trustees).

**Figure 4 – SMSF trustee asset allocation**

*n = 431, respondents who have an SMSF*



## Detailed findings

### Sector growth and trustee behaviour

*“Tax was a driver. Control and tax, those two things. Control over my own investments, the mix and, also, it had to complement my (investments) outside super. When I started I had 80% outside of super and 20% of my wealth inside of super.”*

(Female focus group participant, Accumulation SMSF trustee)

### General

One of the defining characteristics of the SMSF trustee is a preference for maintaining some element of control over their superannuation and finances generally.

The research supports the notion that many SMSF trustees exhibit ‘controller’ tendencies – they defer pleasure and typically show greater interest in managing their finances than non-trustees.

With regards to managing money and finances, two fifths of SMSF trustees (40.8%)

could be classified as controllers; they are interested in managing their money and like doing it themselves, compared to just 25.8% of those who do not have an SMSF.

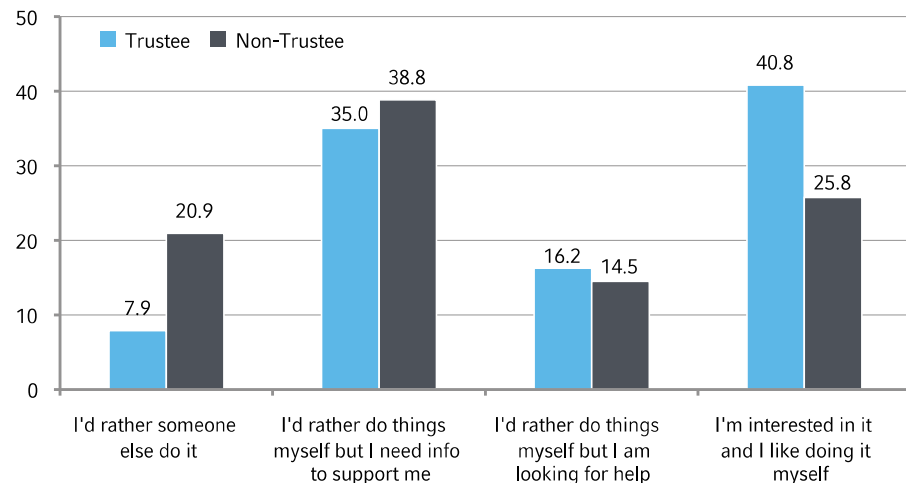
The typical trustee spends, on average, around five hours per week (5.18 hours) managing their SMSF. The highest proportion of time is spent researching new investment opportunities (1.8 hours on average) followed by monitoring performance/fund balance (1.5 hours).

The amount of time spent on all tasks regarding their SMSF is highly correlated with preference for control.

Those trustees who could be considered ‘outsourcers’ (they’d rather someone else manage their money and finances) spend less time researching new investment opportunities and acquiring/divesting investments than trustees who could be considered ‘coach seekers’ (they’d rather do things themselves but need information to support their decisions or are looking for someone to help them) and ‘controllers’ (they are interested in managing their own money and like doing it themselves).

**Figure 5 – Preferences for managing money and finances (Trustee vs Non-Trustee)**

*n = 431, respondents who have an SMSF and 994, respondents who do not have an SMSF*



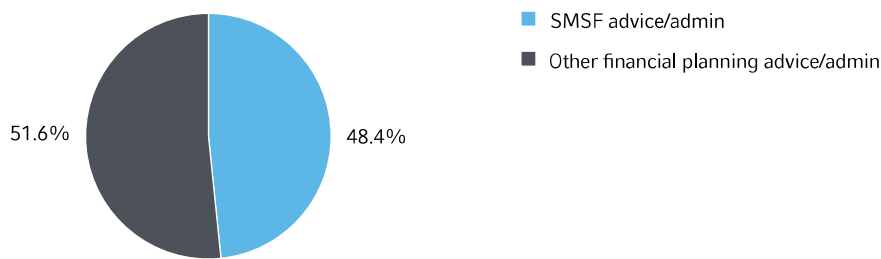
Given the profile and characteristics of the typical SMSF trustee, it is logical that there would be a link between involvement in business and having an SMSF.

On average, more than two in five SMSF clients (44.7%) have SMEs. One in five advisers (22.5%) claim more than half of their client base have SMEs, providing evidence that being an SMSF trustee is strongly correlated with owning a business.

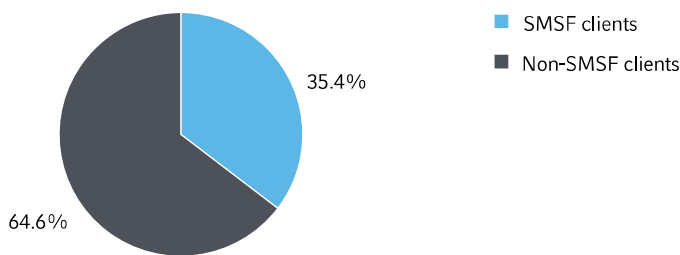
For the average adviser, SMSF clients account for just under half of the assets they advise and/or administer (48.4%), while other client assets account for just over half (51.6%).

Despite this, advisers are generating less revenue from their SMSF assets than non-SMSF assets, with SMSF clients accounting for only two fifths (40.4%) of total revenue.

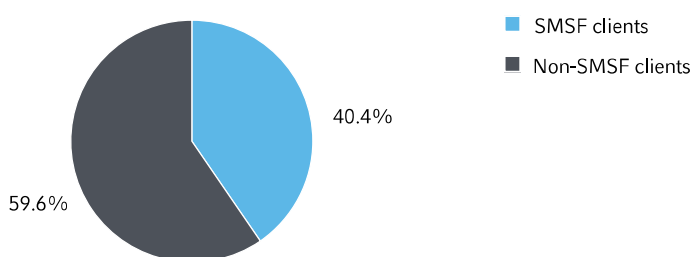
**Figure 6 – Proportional asset split (SMSF vs other financial planning)**  
*n = 443, respondents who advise and/or administer SMSFs*



**Figure 7 – Proportional client split (SMSF vs other financial planning)**



**Figure 8 – Proportional revenue split (SMSF vs Non-SMSF clients)**



Given however, that SMSF trustees make up only 35.4% of the average adviser' client base (in terms of number of clients), yet 40.4% of client revenue, they are clearly more profitable clients. This is despite the fact that the return on SMSF assets is lower than other client assets largely due to the fact that SMSF trustees tend to hold a high proportion of their assets in cash and property.

This proportional split by number of clients confirms that SMSF clients tend to have, on average, higher account balances than members of other super funds.

When asked directly, more than half of advisers (53.5%) perceive SMSF clients to be more profitable than non-SMSF clients.

The growth in the SMSF sector to date has largely been among controllers, who make up around 20% of the Australian population.

According to advisers and trustees, control is the number one reason for establishing an SMSF.

When asked to highlight the key establishment drivers, four in five advisers (80.2%) say that control over investment choice is the primary driver while three in five (63.9%) say it is to allow the client greater control over their retirement future.

*“Management of tax outcomes in accumulation phase.”*

(Male adviser, 16 years in practice, ACT)

*“Asset protection.”*

(Male adviser, 21 years in practice, ACT)

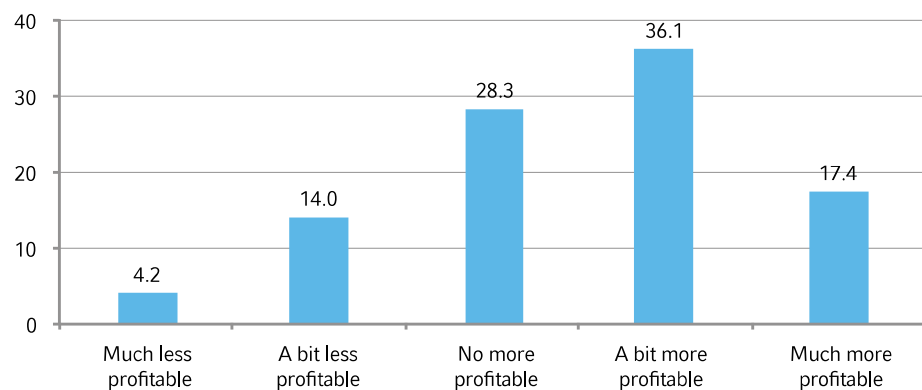
Trustees likewise see control as the key driver, with seven in 10 trustees (71.2%) indicating they established their SMSF because they wanted more control over their investments and just over half (54.1%) claiming they wanted more control over their future.

Savvy trustees are the most likely to cite control and tax benefits as their primary establishment drivers whereas trustees who rate their investment knowledge as poor are significantly more likely to have established their SMSF following the advice of a financial planner.

Trustees without a dedicated financial adviser are more likely to have been seeking control over their investments when compared to those with a dedicated adviser and are also considerably more likely to be driven by the perception that other super funds charge too much.

**Figure 9 – Profitability of SMSF clients compared to non-SMSF clients**

*n = 407, respondents who advise and/or administer SMSFs*





While two in five advisers identify estate planning benefits as a primary establishment driver (42.9%), placing this in third position and slightly ahead of accessing better value than other superannuation vehicles (40.5%), trustees rank estate planning way down the list in seventh place.

Tax benefits are perceived to be a bigger driver for trustees than advisers, with trustees ranking flexible tax benefits as the third biggest driver of establishment and advisers ranking it as the fifth biggest driver.

### Future growth

According to APRA, the number of SMSFs grew by 6.5% (26,269 funds) during the 2010 financial year<sup>1</sup>.

Just under half of SMSF advisers and administrators claim to have experienced a surge in SMSF activity post-GFC (46.1%), compared to only 14.7% who reported a decrease.

Based on the research, this trend looks set to continue with almost half of advisers (46.1%) predicting a slight increase in demand in the future and a staggering one in three (37.4%) expecting to see a strong increase.

<sup>1</sup> APRA Annual Superannuation Bulletin, June 2010 (issued 19 January, 2011)

Advisers expect this demand to be gradual at first with only one in five (18.9%) expecting a strong increase in the next 12 months, however one in three (35%) are expecting a strong increase over the coming five years.

Adviser expectations for the growth of SMSF usage is slightly optimistic when compared to the intentions of non-trustees and high net worth individual (HNWI) non-trustees to establish an SMSF in the future.

In fact, short-term intentions for the SMSF market are more favourable than long-term intentions.

Overall, one in 10 respondents (10.1%) who do not have an SMSF are likely to set one up in the next two years, while only 5.1% are likely to set one up in the next five years.

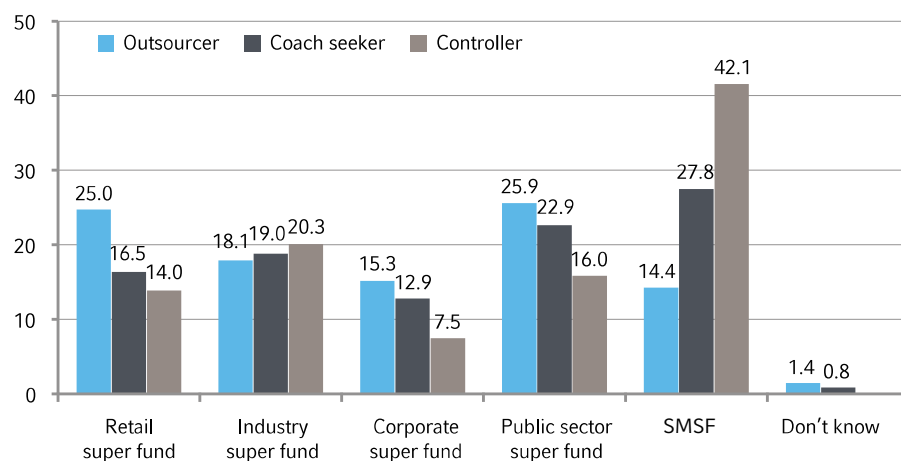
Not surprisingly, the older generations are significantly less likely than the younger generations to consider establishing an SMSF in the next two to five years.

While the absolute number is relatively low, Generation X (aged 32-46 years) are the most likely to establish an SMSF in the next two years.

Some 15.5% of Generation X respondents without an SMSF are likely to consider establishing one in the next two years, compared to only 9.4% of Baby Boomers.

**Figure 10 – Super fund membership by behavioural type**

*n* = 431, respondents who have an SMSF; 258 respondents who do not have an SMSF AND are high net worth individuals; and 736 respondents who do not have an SMSF



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As mentioned previously, the growth in the SMSF sector to date has largely been among the controller segment with two in five controllers (42.1%) already having an SMSF, compared to only 27.8% of 'coach seekers' and 14.4% of 'outsourcers'.

However there is a big potential market for SMSFs among outsourcers, who tend to make decisions based on fear (around 50% of the overall market) and coach seekers, who seek external affirmation for their decisions and make up around 30% of the total population.

The potential attraction of SMSFs among the coach seekers segment is evident given one quarter (27.8%) already have one and this group is likely to have a higher preference for using financial advisers, presenting a considerable opportunity for advisers to market to this group.

The tendency of outsourcers to pass decision-making responsibilities to third parties makes it logical that this is the smallest group of SMSF trustees and the least attractive growth market for advisers – unless they are able to change the perception of SMSFs as a DIY option.

### Confidence in the system and retirement adequacy

*"Governments seem to change the rules all the time, so I'm not very comfortable that this will not continue to happen, ie., extra contributions, how much can be drawn out etc."*

(Female, SMSF trustee, aged 46, SA)

#### General

One of the biggest threats to the superannuation system, and a clear theme to emerge from the qualitative component of the research, is a fear of government tinkering.

This fear is much stronger among non-trustees than those who believe that they have taken control of their future by establishing

an SMSF and it is contributing to a lack of confidence in the superannuation system.

Overall, three in four SMSF trustees (74%) are confident in the superannuation system as a vehicle for retirement savings – significantly more than the 53.6% of non-trustees who share their level of confidence.

Interestingly, however, one in five (20.4%) trustees say they could be more confident and some 5.6% are not confident at all.

According to the qualitative findings, the considerable lack of confidence can be attributed – in some part at least – to the threat of legislative change.

There was broad agreement amongst the focus group participants that the threat of government intervention is a primary concern. In some cases it was this threat alone that was driving trustees to invest more outside of super so that they can maintain control over their assets.

*"I like the money in the super because it's very tax effective at the moment. Tomorrow morning I might pick up the Herald and find it isn't."*

(Male focus group participant, Accumulation SMSF trustee)

Many were frustrated with the complexity of regulations governing SMSFs and none demonstrated confidence that the Federal Government would leave SMSFs untouched in the future.

Despite this, virtually all SMSF trustees (93.5%) indicate they are unlikely to close their SMSF in the next two years.

According to the research, SMSFs provide trustees with security and confidence in their future. SMSF trustees are considerably more confident about the prospect of achieving their retirement goals than non-trustees and are marginally more confident than HNWI's without SMSFs.

*"I initially took out an SMSF some years ago when I was in business. Over the 14 years that I have managed the fund it has been interesting and challenging to set goals. I believe our fund has achieved some good results over the years particularly through the GFC which deteriorated the fund only slightly but it came back strongly on recovery. Recently I have retired and, at the moment, the fund is providing a good average allocated pension."*

(Male, SMSF trustee, aged 65, WA)

One third of SMSF trustees are very confident (34.1%) and two fifths are reasonably confident (45.2%) that they are on track to achieve their target retirement income compared to only half of non-trustees (51%).

The average SMSF trustee anticipates that they will require \$1,531.76 each week to achieve their desired retirement lifestyle, which equates to approximately \$80,000 per year, per trustee.

Given seven in 10 (71.2%) SMSF's have two trustees within their fund; the average SMSF needs to sustain an annual drawdown of \$160,000 per year.

The average balance of SMSF trustee respondents is \$1,001,732.67.

In order to sustain the average trustee's retirement income requirements (without dipping into capital); the average SMSF requires an annual return of around 16% – well above the historical rates of return reported by SMSFs.

According to the Super System Review<sup>1</sup>, SMSFs achieved a return on assets of 12.6%, 16.9% and -6.1% for 2006, 2007 and 2008 for an average return of 7.8% for this three-year period.

If we take the three year average return of 7.8% and extrapolate using an average annual drawdown figure of \$160,000 (\$80,000 per

trustee), the average SMSF would not be able to rely on their superannuation savings alone, instead being forced to invest outside of super fund or draw down on capital to fund their retirement over the long term.

The findings have both policy implications – given the current contribution cap limits discussed below – and implications for asset allocation in retirement.

The need for SMSF trustees to adjust their asset allocation as they move from accumulation to decumulation is evident yet is not commonly undertaken by those approaching retirement or those who have already reached retirement age.

### Contribution cap gap

Under legislation which took effect on 1 July, 2009, super fund members face greater limitations over the amount of tax-free contributions that can be contributed to their super fund.

The concessional contribution caps for the 2009-10 financial year reduced to \$25,000 for those members under the age of 50 and \$50,000 for members aged 50 or above.

The research shows the impact of this restriction is at least \$15.1 billion less money in the superannuation system.

Around half of SMSF trustees (48.4%) would have contributed extra (on top of the limits allowed) to their SMSF in the last financial year had the restriction not applied, while a further 46.7% would have made no change and 4.9% did not know.

Of those who would have contributed more, the average contribution would have been \$72,704.

There are 428,198 SMSFs, according to APRA<sup>2</sup>, with the number growing from 401,929 in the 12 months to June 2010. This includes 27,340 establishments during the period – a net growth rate of 6.5%.

<sup>2</sup> APRA Annual Superannuation Bulletin, June 2010 (issued 19 January, 2011)

Based on these figures, 207,248 SMSF trustees would have made extra contributions to their SMSF – collectively contributing approximately \$15,067,746,378 in extra concessional contributions in the 2009-10 financial year.

The large majority of trustees would have made these extra contributions in June 2010 (59.6%).

Given the average SMSF balance is unlikely to meet the average trustee's income expectations in retirement, raising the contribution cap limits could increase the proportion of SMSFs that are able to live the lifestyle they desire in retirement and prevent trustees from investing outside their fund.

### **'Low' balances a myth**

The right size for an SMSF to make economic sense has been the focus of much debate among both government and industry as the sector grows, with the Government's *Super System Review*<sup>1</sup> claiming that operating expense ratios and performance of SMSFs correlate significantly with SMSF size.

The Review found that, on average, small-sized SMSFs (those with \$200,000 or less) lack investment diversification, suffer high relative costs and underperform larger-sized SMSFs.

However the average SMSF balance has been steadily increasing over recent years, suggesting that there are fewer trustees with SMSFs that do not have the assets to warrant one.

According to the Review, from the 2004 to 2008 financial years, the average SMSF member account balance nearly doubled to \$456,000, despite the negative impact of the GFC.

The proportion of small-sized SMSFs (those with less than \$200,000), according to the Government's Review, has also been reducing from 42% of SMSFs to 26% over that time.

The research supports the Government's assertions about small SMSF balances, with one in four trustees (25.5%) having a fund balance of more than \$1 million.

A further one quarter (26%) have between \$250,000 and \$550,000 in assets. Only one in seven trustees (14.9%) claim to have an approximate balance of \$250,000 or less.

Interestingly, however, one in five SMSF professionals say that the minimum balance required for them to advise on an SMSF is \$100,000 or less – suggesting not all advisers discriminate based on asset size.

According to advisers, the majority of clients' account balances (59.3%) fall into the bracket of \$250,000 to less than \$1 million. Only 11.7% of clients have an account size of less than \$250,000, while 18.9% have a balance between \$1 million and \$2 million.

Although perceptions vary about the minimum dollar amount needed to advise a client to set up an SMSF, the average amount considered by advisers is \$241,280 – above the \$200,000 put forward by the Government as potentially the minimum amount at which having an SMSF makes economic sense.

A large chunk of advisers (43.3%) consider the minimum amount to be between \$150,000 and \$250,000 while more than one quarter (28.9%) would not advise a client to establish an SMSF unless they had more than \$250,000.

### **Trustees prone to working longer**

SMSF trustees are more likely than other super fund members to be retired or transitioning to retirement, backing up the commonly made assertion that SMSF members are older than the average super fund member.

They are also more likely to have been paid out or to be drawing down on their superannuation, with 84.7% of retired SMSF trustees citing that this is the case compared to only 74.6% of retirees without an SMSF.

SMSF trustees have a much higher preference for remaining in the workforce after retiring from full-time work, with more than half (53.2%) intending to work part time, compared to only 32% of non-trustees.

<sup>1</sup> Australian Government Review Into the Governance, Efficiency, Structure and Operation of Australia's Superannuation System, 10 December, 2009

Given the SMSF sector is the largest and fastest growing, this has big implications for government policy, which has, to date, focused largely on the accumulation phase.

The Government has a stated policy of encouraging people to work longer. The introduction of transition to retirement (TTR) pensions a few years back was aimed at increasing workforce participation among those at and nearing retirement age.

The fact that SMSF trustees stay in the work force longer is no doubt a consequence of the type of individual who is likely to have an SMSF.

Perhaps by doing more to encourage and support the SMSF sector, the Government may also be encouraging more people to stay in the workforce longer.

### New rules impact borrowing

The Superannuation Industry (Supervision) Act 1993 was amended in September 2007 to enable SMSFs to borrow provided that:

- › The borrowed funds are used to purchase real estate;
- › The real estate is held in trust for the SMSF by a property trust;
- › The SMSF has the right to acquire legal ownership of the real estate by making payment; and
- › The lenders recourse against the SMSF must be limited to the asset purchased.

However new measures were applied to limited recourse borrowing arrangements for SMSFs put in place on or after 7 July, 2010 or to refinances of existing loans on or after this date.

So far the ATO has applied a very strict interpretation of what constitutes an improvement which means it is no longer viable to use these borrowing rules to acquire most types of properties.

The rules include the requirement for borrowed funds to be used to obtain a 'single acquirable asset' so properties on multiple titles (which occurs commonly) are not allowed.

There are also restrictions imposed on replacing or improving the asset once it has been acquired, so if it burns down or is flooded, it cannot be replaced and the arrangement will need to be unwound possibly at considerable cost to the fund.

Previously, more than one asset could be acquired and assets did not have to be the same form or type in order to undertake a single limited recourse borrowing arrangement.

Two in five advisers say they have provided advice to trustee clients on the new borrowing rules to purchase a residential or commercial property in their SMSF via an instalment warrant, while a further 15.7% intend to do so in the future.

One third (33.1%) have not advised clients on borrowing in their SMSF, while only a handful have provided or intend to provide advice to clients on the new borrowing rules to purchase shares or managed funds in their SMSF via an instalment warrant.

While the findings demonstrate that advisers clearly see the value in borrowing through an SMSF, trustees are less convinced.

There is little appetite from trustees for borrowing to invest in their SMSF with three quarters saying they have not borrowed to invest and do not plan to (75.6%).

Of the 13% that plan to, the most common intended use is to purchase a residential or commercial property via an instalment warrant (57%).

It is possible that the strict enforcement of the new borrowing rules is causing trustees to question the value in borrowing via their SMSF, although this was not specifically addressed through the research.

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## The advice proposition

*“If you’re going to a financial adviser you want to see their runs are on the board before – if they can recommend something, you want to see where they’ve come from too.”*

(Female focus group participant, Accumulation phase SMSF trustee)

### General

The majority of professional advisers who participated in the study are financial planners (59.3%), while just under one fifth are accountants (18.4%) and some 15% are classified as practice principals.

A small number of paraplanners, auditors and lawyers also took part in the research.

Of those who took part, the large majority are providing advice on SMSFs. Around half (50.3%) say they are advising only (e.g. tax strategy, fund structure, investments, asset allocation, auditing) while more than one third 35.7% are providing administration as well as advice.

The most common service provided as part of the SMSF service offer is SMSF structuring and strategy advice (89.5%), followed by investment advice (82.7%).

Almost three quarters of advisers also offer insurance advice and SMSF establishment (71.5% and 71.3% respectively).

Not surprisingly, given the compliance burden faced by all advisers providing professional advice to clients, compliance obligations are considered the greatest challenge for advising SMSF clients, on par with regulatory change.

Managing trustee responsibilities and obligations is also considered highly challenging – listed as the third greatest challenge.

This is interesting given the majority of trustees claim to have at least a reasonable understanding of their role and responsibilities presenting a fundamental mismatch in adviser-client perceptions.

Advisers are, understandably, much less tested by things like use of other taxation-saving vehicles, asset allocation and choosing the right investments for clients, which tend to be their core areas of expertise.

### Partnership approach

It is widely acknowledged that less than one quarter of the Australian population seeks professional advice on a regular basis.

However, SMSF trustees are more prone to having a dedicated financial adviser than members of other super funds.

In fact nearly two in five SMSF trustees (37.8%) have a dedicated adviser, compared to only 26.3% of non-trustees.

The most popular source of professional advice for SMSF trustees is non-aligned or independent financial advisers (38.8%) – used more than twice as much as specialist SMSF advisers (16.3%).

A small number of trustees use financial advisers aligned with an institution or provider (13.1%) and accountants (12.7%).

People without an SMSF are three times as likely to state affordability as the reason for not having a dedicated adviser, reflecting the tendency of SMSF trustees to have higher asset bases and hence greater capacity to pay for advice.

SMSF trustees most commonly adopt a partnership approach to their relationship with their financial adviser, rather than outsourcing all of the decision-making.

Around one third of trustees use their adviser for high-level ideas and advice and make their own decisions about individual investments (35.1%) while a further one third partially relies on them and do some of their own research (33.5%). Only one quarter (25.7%) relies on them as the exclusive advice provider.

This is again typical of the controller nature of the average trustee and suggests advisers that position themselves as ‘coaches’ or ‘collaborators’ will be the most successful in gaining SMSF clients.



Fee structures are also an important part of the advice proposition – and, while payment preferences vary, SMSF trustees have a clear preference for paying fees rather than commission for advisers' services.

The most common form of payment for advice relating to the SMSF (excluding compliance) is a fee based on the number of hours the adviser works (22.5%), followed by an annual retainer or flat fee (21.8%).

These methods are also the most preferred methods; when asked how they would prefer to pay the fees and costs relating to their SMSF, more than one quarter listed annual retainer or flat fee (28.5%) or fee based on the number of hours worked (26.5%).

The payment for advice has been under scrutiny for some time, and last year the Government announced it would legislate to ban commissions for new financial planning clients from July 2012.

The legislation is part of the Future of Financial Advice Reforms (FoFA)<sup>1</sup> and is intended to increase transparency for consumers.

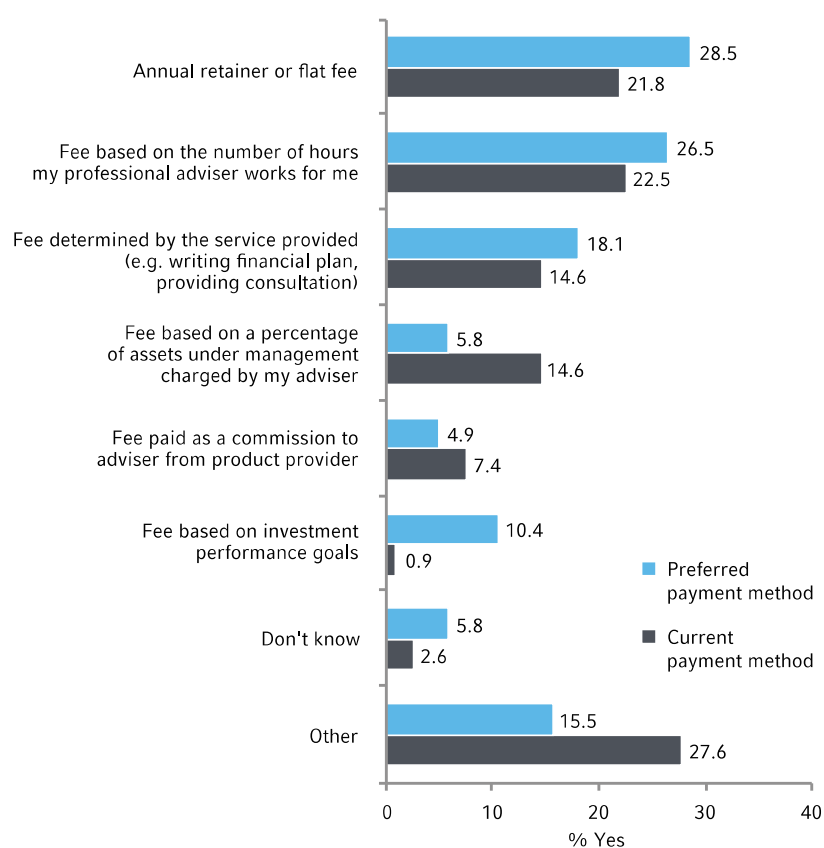
However, according to the research, advisers in the SMSF sector are already largely operating in a commission-free environment and hence will be less affected by the reforms.

Two in five advisers (43.2%) charge an annual retainer or flat fee, while 39% charge a fee based on a percentage of assets under management which is not set by the product provider.

<sup>1</sup> <https://futureofadvice.treasury.gov.au>

**Figure 11 – SMSF trustee advice payment method (current vs preferred)**

*\*Multiple answers allowed  
n = 431, respondents who have an SMSF*



A further one third (33.4%) charges a fee determined by the service provided and one quarter (27.3%) charges a fee based on the number of hours they work. Only 6.6% currently charge a fee paid by commission set by the product provider.

The approximate average amount of fees and costs paid on an SMSF annually (including related advice, compliance and accountancy costs) is \$3,670.

One fifth of respondents (22%) say they pay less than \$1000, while a further 36% pay between \$1000 and \$3000 per year. One in five (20.3%) pay more than \$5000 annually.

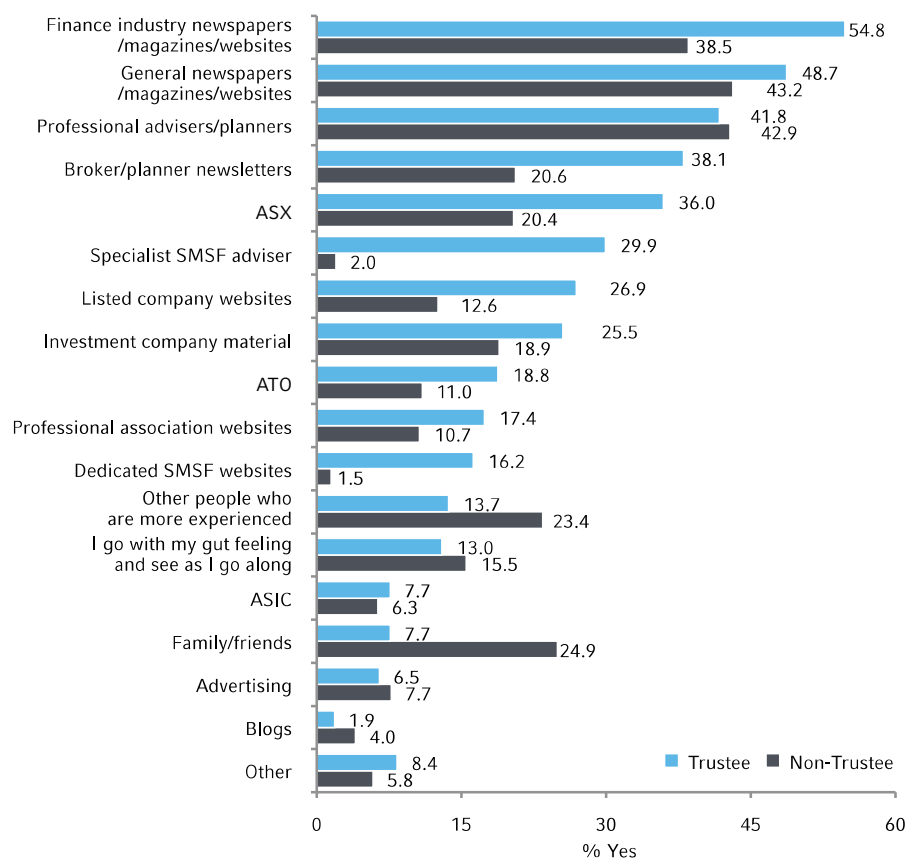
## Education, tools and competency

*"I readily access the actual releases by the companies on the ASX, through ComSec actually because I basically look up online any others that I'm interested in and follow them for a while. I just go on what they've been releasing, especially what's being said at the Annual General Meetings by the Chairman and the CEO."*

(Male focus group participant, Retired SMSF trustee)

**Figure 12 – Which information sources do you typically use to make financial decision?**

*\*Multiple answers allowed  
n = 431, respondents who have an SMSF and 994, respondents who do not have an SMSF*



## General

Due to the partnership approach typically adopted by the average SMSF trustee who has a financial adviser, and the tendency of trustees to want to maintain some level of control over the decision-making process, financial advisers are not the first place trustees turn for information.

The media is the most prevalent information source for SMSF trustees; around half make the majority of financial decisions based on information sourced from financial (54.8%) and general (48.7%) newspapers, magazines and/or websites.

Trustees are more likely to obtain information directly from such sources as broker and planner newsletters (38.1% vs 20.6%), the ASX (36% vs 20.4%) and listed company websites (26.9% vs 12.6%) than non-trustees.

Two in five (41.8%) receive information directly from their professional adviser or financial planner, which is marginally less than respondents without SMSFs (42.9%).

*"I get probably three or four times a week newsletters from stockbrokers that are flicked through to me on the computer."*

(Male focus group participant  
– Retired SMSF trustee)

This further exemplifies the controller type nature of the SMSF trustee. They invest time and effort into ensuring they are well informed so that they can be actively involved in making financial decisions.

There is clearly a need for advisers to better articulate the value they can add and better define their value proposition to ensure trustees are seeking out information regarding their fund from the best possible source – a professional adviser.

Coupled with this, there is an opportunity for the industry to help equip advisers with the right tools for assisting their trustee clients, whose key financial advice need is investment advice (69%).

Almost three in four advisers (72.4%) source investment information from professional research houses such as Morningstar and Lonsec. Half (51.1%) conduct their own research while slightly less (46.1%) take advantage of in-house research and just over two in five seek investment information from fund managers (43.9%).

Advisers who advise SMSF clients are significantly more likely to obtain investment information from their own research (53.3% vs 21.9%) or from a broker (39.6% vs 6.3%) than those who do not.

More experienced advisers also tend to rely on their own research. Three in five advisers who have been advising for 21 years or more conduct their own investment research compared to fewer than half of less experienced advisers.

For information regarding technical strategy, advisers primarily do their own research (62.1%) or use professional industry bodies (60.7%) with half (51.5%) informed via research provided by their dealer group or licensee.

Interestingly, while more than one third (36.5%) say they are willing to pay for subscriptions to technical research, fewer than one in seven already do (13.1%).

## Raising standards

SMSF advisers understand that one of their key roles is to help trustees to better understand the advice they provide, the investments they recommend and the legislation around SMSFs.

Two in five advisers actively assist trustees to self-educate (39.3%) and half do so to some extent (48.9%).

The ATO is by far the most widely referred resource. Three in five advisers (60.1%) refer clients to the tax office – twice as many as to finance industry newspapers, magazines and websites (30.4%) and the ASX (29.9%).

Other popular resources recommended to clients are ASIC (26.6%), broker/planner newsletters (25.4%), mainstream media (22.4%) and SPAA (21.1%).

Interestingly, dedicated SMSF trustee websites such as [thesmsfreview.com.au](http://thesmsfreview.com.au) (5%) and [smsfeducation.com.au](http://smsfeducation.com.au) (4.5%) are rarely referred to trustees by advisers.

Aside from SPAA, advisers also refer SMSF clients to professional accounting body websites – CPA and ICAA.

The minority of advisers who do not recommend websites and resources (only 13.8%) identify a lack of interest (or assumption thereof) from clients and adviser preference to be the sole supplier of information.

*“Clients are unlikely to use them. They tend to rely on the information I provide.”*

(Female adviser, 10 years in practice, NT)

*“I have never had a client show any interest in knowing more about their SMSF, they rely on me for investment, tax planning and strategy advice and their accountant for all other services.”*

(Male adviser, 5 years in practice, QLD)

While the number of non-compliant SMSFs remains low, there has been a significant increase in the number of funds rendered non-complying over recent years<sup>1</sup>.

<sup>1</sup> <https://www.ato.gov.au>

According to the ATO, in 2005-06 just 12 funds were made non-complying, while in 2009-10 the number increased to 185, reinforcing the importance of education and financial advice for SMSF trustees.

The Government states that the increase in non-complying SMSFs is primarily due to the ATO stepping up regulation in this area, rather than deterioration in compliance behaviour on the part of trustees.

However, given the substantial potential tax impact of receiving a notice of non-compliance from the ATO, both trustees and advisers must focus on improving education standards to ensure they are fully aware of trustee responsibilities and complying with the regulatory regime.

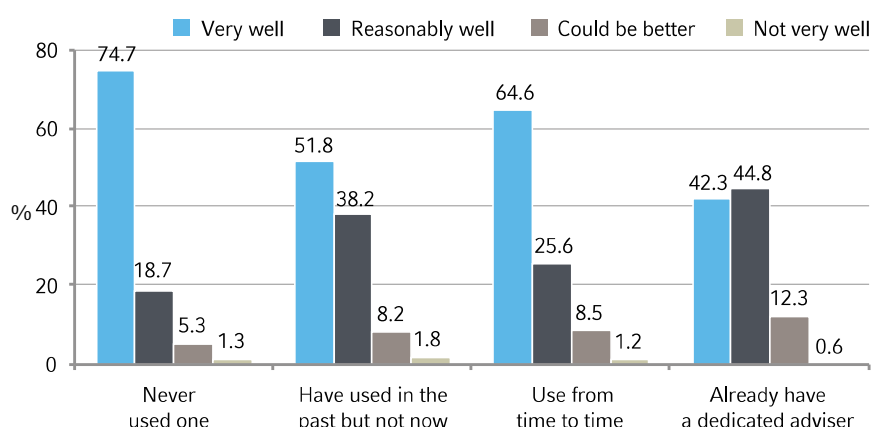
The need for raising standards of education among SMSF trustees is also supported by the research findings regarding understanding of trustee obligations.

SMSF advisers list this as one of their biggest challenges when servicing SMSF clients.

While a third of advisers (34.8%) rates trustees’ understanding of their obligations and responsibilities regarding their SMSF as good, around one in five considers it to be poor (21.5%).

**Figure 13 – Understanding of trustee obligations by use of financial advisers**

*n = 431, respondents who have an SMSF*



Trustees, however, are considerably more generous in their self-assessment. Nearly nine in 10 trustees (89.6%) rate their understanding as at least reasonable.

Perhaps counter intuitively, those trustees who have never sought professional advice rate their understanding higher than those with a dedicated adviser.

Three in four (74.7%) trustees who have never used a financial adviser say they understand their obligations very well compared to only two in five (42.3%) trustees who have a dedicated adviser.

When prompted, virtually all trustees claim awareness of the sole purpose test (99.1%), that SMSFs must follow investment rules that restrict the type of assets their SMSF can invest in (98.4%) and the concessional contribution caps (96.7%).

It is important to note though that they were not asked to provide an explanation of these regulations, so it is not possible to say whether or not they truly understand the nature of each requirement.

### The knowledge barrier

It is not just SMSF trustees that require further education with regards to their roles and responsibilities.

The number one reason provided by those without an SMSF is that they simply do not know enough about them (31.9%), closely followed by a preference for the 'expertise and security' of other super funds (28.2%) and not having the necessary asset size to justify an SMSF (26.5%).

Not surprisingly, younger respondents are significantly more likely than older respondents to not think about whether the size of their assets justifies having an SMSF. Around one third of Generation X (34.7%) feel this way compared to just under one quarter of Baby Boomers (23.6%) and Pre-Boomers (23.7%).

A further third of Generation X respondents (35.2%) and Baby Boomers (31.8%), and one in five Pre-Boomers (21.1%), cite not knowing

enough about SMSFs as a barrier, suggesting that mere education of non-trustees could boost take-up of SMSFs considerably.

Interestingly, it is the older respondents who prefer the security and expertise of other super funds to take care of their retirement wealth. More than two in five (42.1%) Pre-Boomers say this is the case as do almost one third of Baby Boomers (31.7%) – a potential market for advisers who are able to explain the safety of SMSFs and offer expertise to overcome these concerns.

HNWI respondents without an SMSF – those who could be considered a key target market for advisers looking to gain new clients – placed the security and expertise of other superannuation funds (30.6%) and the hassle of SMSFs (30.2%) as their top reasons for not having one, followed by not knowing enough about them (29.5%).

Interestingly, cost was only identified as a deterrent by 12.6% of respondents.

Clearly there is an opportunity for the industry to educate consumers about the purpose and benefits of SMSFs, so that they are able to make an informed decision about whether the structure is right for them.

### Stronger investment knowledge

SMSF trustees are three times more likely to self-rate their knowledge of investments as 'very strong' than non-trustees (15.1% vs 4.9%) and nearly half list their knowledge as 'strong' (49.4%), compared to just one quarter of non-trustees (25.7%).

They also tend to claim to have a slightly higher appetite for risk, despite their older demographic (27.1% high vs 17.9% high).

While much of the debate around superannuation pitches the SMSF sector against industry, retail and corporate funds, the research shows that, in fact, the sectors are not necessarily mutually exclusive.

Many trustees are making an active choice to have multiple superannuation funds, presenting an opportunity for consolidation.

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Around one in four SMSF trustees is also a member of another super fund, such as an industry, public sector, corporate or retail fund.

Interestingly, of the SMSF trustees who are also members of another super fund type, three in five (61%) receive financial advice, supporting the notion that having multiple super funds is an active choice by the typical trustee rather than the result of lack of guidance.

The primary reason for trustees having other super funds is that they perceive it to give them diversification, with 37.6% of SMSF trustees listing 'diversification of my investments' as the reason for having multiple super funds.

This finding suggests that some trustees are not fully aware of the means by which they are able to access international investments via their SMSF.

However, other common reasons for having multiple super funds include access to insurance coverage (28.7%) and access to investment options (27.7%).

## Performance and asset allocation

*"The more experienced I get, the more I realise that (asset allocation) is just sort of cliché."*

(Male focus group participant,  
Retired SMSF trustee)

### General

Super fund portfolios suffered across the board during the GFC, but recovered somewhat during the last 12 months as markets regained some of their losses.

According to APRA<sup>1</sup>, the average rate of return (ROR) for large funds (those with more than four members) for the financial year to 30 June, 2010 was 8.9%. Corporate funds generated a return of 8.9%, public sector funds 9.8%, industry funds 8.5% and retail funds 8.7%.

<sup>1</sup> APRA Annual Superannuation Bulletin, 30 June 2010 (issued 19 January, 2011)

Almost half of SMSF trustees claim to have made a return of between 5% and 10% in the last 12 months (49.5%), while a further one in four (25.8%) says they made between 11% and 20%.

Very few (1.4%) admit to having made a negative return on their SMSF despite lacklustre market performance over the same period.

Interestingly, those who are not advised are more likely to claim to have made a return greater than 10% than those who seek professional advice (40.8% vs 25.8%) – although it's important to note that these returns are self-reported.

The financial crisis caused a shift in consumer mindset from return seeking to risk aversion, with clients more concerned about the impact of losses on their portfolio than the potential for growth.

According to advisers, three in five (62.6%) SMSF clients' asset allocations have changed to become more conservative post-GFC, while 29.6% say there has been no change and only 6.4% of trustee portfolios have become more aggressive.

*"Some have a good understanding of investment diversification and have increased exposure to direct shares (post-GFC), others still have a property and cash mindset only and need educating."*

(Male adviser, 25 years in practice, NSW)

The majority of SMSF trustees (58.7%) say they have clear investment performance goals set out for their SMSF, while less than half as many (24.4%) say they do not have any.

Those who seek professional advice are more likely to say they have clear investment performance goals set out than those who do not use an adviser (65.1% vs 55.2%).

Investment performance goals listed by trustees range from return targets to maintaining liquidity and meeting liabilities.



*“Invest in a high degree of liquidity combined with a low risk to ensure funds meet current & future liabilities. Provide a regular income whilst retaining security of principal. Aim for at least a 5% return, no capital gains tax and franking credits.”*

(Female, SMSF trustee, aged 57, QLD)

### Assets highly concentrated

Australians are known for our love affair with property and domestic shares.

SMSF trustees have come under heavy scrutiny with regards to their asset allocation given the large amount of money stored in the SMSF sector, with Jeremy Cooper noting in his address to the 2010 SPAA National Conference that about half of all SMSFs have 90% of their investments in a single asset class.

Referencing the Super System Review 2009<sup>1</sup>, he noted that 20% of SMSFs had all of their investments in a single asset class, and 59% held only listed Australian shares and cash/term deposits.

The quantitative research confirms that SMSF assets are highly concentrated but the qualitative research suggests that many trustees hold investments outside of their SMSF, perceiving the fund as just one aspect of their investment mix.

*“I have a lot of money, like a lot of investments outside of super as well.”*

(Male focus group participant – Accumulation SMSF trustee)

<sup>1</sup> A Statistical Summary of Self-managed superannuation funds. Australian Government Review into the Governance, Efficiency, Structure and Operation of Australia’s Superannuation System, 10 December, 2009

*“With us, our family, it doesn’t really matter whether it’s in super or outside the super. It’s the same pocket at the end of the day. At this moment we have roughly half and half.”*

(Male focus group participant – Retired SMSF trustee)

On average, two fifths of trustee assets sit in direct Australian equities (42.6%), while just under one quarter (23.1%) is in cash; not surprising given the flight to safety during the GFC.

Some \$60 billion in surplus retail deposits remains within the Australian banking system (as at September 2010)<sup>2</sup>, with increased cash portfolio allocations built up during the crisis yet to unwind.

The \$60 billion is up from \$55 billion surplus in June and \$57 billion in March, but down from \$64 billion in December 2009.

Much of the cash in the system is in a holding pattern, to some extent due to the continued aversion to risk, with around half of those with a high weighting to cash (above 10%) claiming they are waiting for a better investment option (52%) or want to reduce their risk (47.6%).

One in four SMSF trustees want a guaranteed income stream (23.1%) while one in five say they need liquidity to pay benefits (21%).

One tenth of trustees’ assets sit in managed funds (9.4%), while 5.6% is allocated to direct residential property and 4.6% to direct commercial property.

Of the small number of SMSF trustees allocating to direct commercial property, only 6.5% say it is a rural property however around half (52.2%) say the property is leased to them or a related company.

<sup>2</sup> CoreData-brandmanagement Australian Cash Report Q4 2010

SMSF trustee asset allocation is considerably more concentrated than the typical non-SMSF super fund asset allocation, however this could, in part, be explained by the tendency for many trustees to hold some assets outside of their SMSF.

Members of retail, industry, public sector and corporate super funds are less likely than trustees to know the asset allocation of their super fund, with two fifths of those without an SMSF (39%) claiming to know the asset allocation of their fund.

Of those who claim to know how their super fund assets are allocated, around one quarter (27.9%) of non-trustee assets sits in direct Australian shares (considerably lower than the SMSF trustee allocation of 42.6%) and a further 16.9% in cash (compared to 23.1% for trustees).

### Trustees as influencers

Interestingly, three quarters of advisers (76.2%) admit that the client has some element of control over the investment strategy and asset allocation of the SMSF – again reflecting the strong bias of SMSF trustees towards maintaining control.

Almost half of advisers say that SMSF investment strategies and allocation are directed by the client to some extent (46.8%) while one in five says clients direct strategy to a large extent (22.6%) and a handful say the client directs strategy almost entirely (6.8%).

In fact, despite using the services of an adviser, only half of those who are advised say they derived their asset allocation and investment strategy for their SMSF based on advice from a planner (52.7%), whereas 56.7% say they used their own research process.

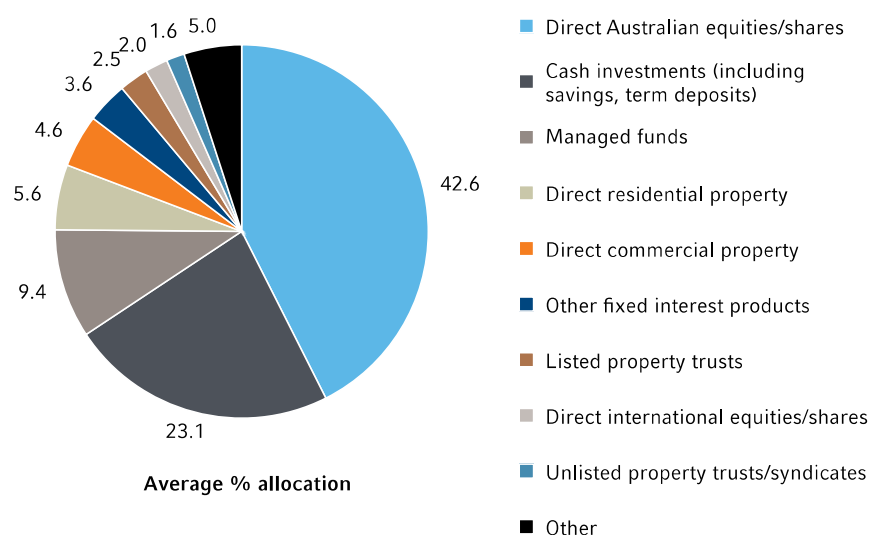
Somewhat of a concern is the fact that one quarter of those trustees who do not seek advice (24.7%) says their strategy was derived from their gut instinct.

Whether they have a dedicated adviser or not, SMSF trustees are twice as likely to use their own research process as they are to seek advice from a planner when forming their asset allocation (68.9% vs 34.3%), affirming the earlier assertion that advisers are used as a partnership rather than relied on exclusively.

One in three advisers (36.8%) uses a model portfolio and strategic asset allocation service and, while a third of these advisers receive

**Figure 14 – SMSF trustee asset allocation**

*n = 431, respondents who have an SMSF*



the service for free, those who don't, pay on average an annual subscription of \$4,863.52.

These services are most commonly provided in-house by their licensee or dealer group, however many use research houses such as Lonsec, Van Eyke, Threesixty and private providers.

Interestingly, of the three fifths of advisers who do not use these services (59.1%), more than a third (36.5%) are open to the idea, suggesting a big potential market for providers of these services.

Two in five advisers (40.2%) who are unlikely to consider using a model portfolio and asset allocation service say they already do this themselves while, interestingly, more than a third (36.2%) say these decisions are mostly client driven.

According to advisers who take direction from their trustee clients when allocating assets, familiarity is by far the biggest driver of client-directed investment strategies – twice as important to clients as wealth preservation, the second biggest driver.

### Asset allocation post-retirement

Investment markets remain choppy and this is reflected in SMSF trustee intentions for their asset allocation within the next two years.

Trustees are fairly evenly split between those who are likely to change their allocation (52.6%) and those who are unlikely to change (44.6%).

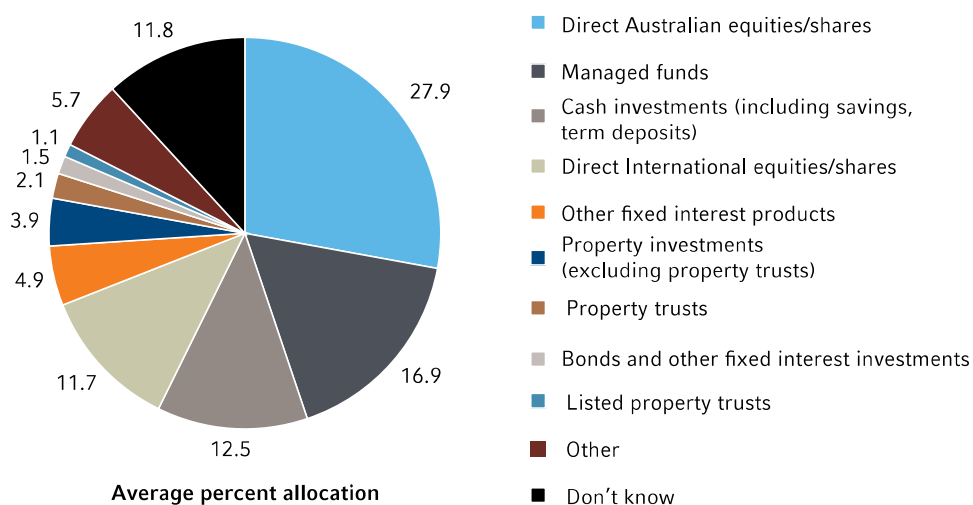
Those who intend to change their allocation are likely to do so to achieve the right allocation to different assets (46.3%), to maximise growth (43.2%) and to diversify (42.7%).

Around one third are looking to preserve wealth (35.7%) or base their allocation on current and projected market performance of various assets (33%).

**Figure 15 – Other super fund type asset allocation**

\* Multiple answers allowed

n = 521, respondents who are members of a super fund other than an SMSF AND know the asset allocation of their super fund



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One of the key concerns of the Government's Super System Review<sup>1</sup> was that the asset allocation of SMSF members in the pension phase was the same as those in the accumulation phase – however the need for liquidity of pension members is much greater.

The research confirms the need for further education of trustees in this area.

Despite individuals' evolving needs – from wealth accumulation to income – as they move into retirement, only two in five SMSF trustees who are not yet retired say they will approach their investment and asset allocation strategy differently when they retire from full-time work (42.7%).

Even fewer trustees who have already retired have actually adapted their strategy (33.6%).

Those who seek advice are significantly more likely to have approached their investment and asset allocation strategy differently having retired from full-time work (38.8% vs 28.8%).

Of those trustees that intend to change their strategy post-retirement, the large majority will increase their allocation to income producing assets, with almost half (46.9%) planning to significantly increase their allocation to such assets.

However three in five (61.5%) do not expect to make this change for five years or more, possibly reflecting their time horizon to retirement, with only 5.6% planning to adapt their strategy within the next 12 months.

<sup>1</sup> A Statistical Summary of Self-managed superannuation funds. Australian Government Review into the Governance, Efficiency, Structure and Operation of Australia's Superannuation System, 10 December, 2009

# Appendices

## Trustee research

Retirement Status	
	Percent
Yes, I am fully retired	26.6
Yes, I am transitioning to retirement and working on a part time basis	12.4
No, I am not retired	61.0
Total	100.0

Gender	
	Percent
Female	33.1
Male	66.9
Total	100.0

Age	
	Percent
20 & below	0.1
21 - 30	3.3
31 - 40	9.1
41 - 50	18.0
51 - 60	36.6
61 & above	32.8
Total	100.0

State/Territory	
	Percent
ACT	3.6
NSW	27.5
NT	1.0
Qld	24.4
SA	8.2
Tas	1.7
Vic	24.1
WA	9.5
Total	100.0

Area	
	Percent
The capital city of my state / territory	68.2
A regional centre	23.3
A rural area	8.5
Total	100.0

HH Income	
	Percent
\$50,000 or less	16.2
\$50,001 to \$75,000	17.9
\$75,001 to \$100,000	15.6
\$100,001 to \$125,000	10.9
\$125,001 to \$150,000	9.7
\$150,001 to \$200,000	14.2
\$200,001 to \$250,000	6.3
\$250,001 to \$350,000	4.6
\$350,001 or more	4.5
Total	100.0

HH Investment Portfolio	
	Percent
I have no investments	5.1
\$50,000 or less	4.5
\$50,001 to \$150,000	8.8
\$150,001 to \$250,000	8.3
\$250,001 to \$350,000	8.6
\$350,001 to \$450,000	5.1
\$450,001 to \$550,000	7.5
\$550,001 to \$650,000	6.0
\$650,001 to \$750,000	6.4
\$750,001 to \$1 million	12.6
More than \$1 million to \$3 million	21.3
More than \$3 million to \$5 million	4.1
More than \$5 million	1.7
Total	100.0

Employment	
	Percent
Self employed	16.5
Employed full time	39.8
Employed part time	12.2
Engaged mainly in home duties	1.9
Retired	25.2
Not employed at present	2.2
Student	0.5
Other	1.7
Total	100.0

Occupation	
	Percent
Managers and administrators	28.4
Professionals	38.6
Associate professionals	6.3
Tradespersons and related workers	3.5
Advanced clerical, sales and service workers	6.7
Intermediate clerical, sales and service workers	5.8
Intermediate production and transport workers	0.8
Elementary clerical, sales and service workers	1.9
Labourers and related workers	1.4
Homemaker	1.1
Other	5.6
Total	100.0

Education	
	Percent
Primary	0.1
Part of high school	6.5
Completed high school	13.7
Diploma or certificate qualification (inc Trades)	27.4
Degree qualification	24.3
Postgraduate qualification	27.9
Total	100.0

Marital Status	
	Percent
Single	9.7
Living with partner/married	79.7
Separated/divorced/widowed	10.0
Other	0.6
Total	100.0

Household Structure	
	Percent
Living alone (never had children)	6.7
Living with flatmate(s) (never had children)	1.5
Living with parents/siblings (never had children)	1.5
Living with partner only (never had children)	11.5
Living with your children (under 18 years) at home	18.8
Living with your children (over 18 years) at home	12.0
Living with your children (both over and under 18 years) at home	4.6
Children have all left home	37.2
Other	6.3
Total	100.0



# Appendices

## Adviser research

Gender	
	Percent
Female	16.2
Male	83.8
Total	100.0

State (Practice)	
	Percent
NSW	31.0
VIC	28.6
QLD	18.0
WA	11.3
SA	7.3
ACT	2.1
Tas	0.9
NT	0.7
Total	100.0

Years as Adviser	
	Percent
5 years and below	9.4
6 to 10 years	24.3
11 to 15 years	22.2
16 to 20 years	15.8
21 to 25 years	15.8
More than 25 years	12.5
Total	100.0



CoreData-brandmanagement is a Sydney-based market research and consultancy firm, specialising in financial services research. Founded in 2002 to bridge the gap between high-quality market intelligence and insight, the group provides research and consulting solutions to financial services companies in Australia, China and the United Kingdom.

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# Intimate with Self-Managed Superannuation

An inaugural **annual study** of  
Self-Managed Superannuation Funds

FULL REPORT / 2012



## Welcome to the second annual 'Intimate with Self-Managed Superannuation' report

*The SMSF sector now represents one third of Australia's \$1.3 trillion superannuation pool. It is the fastest growing superannuation sector by number of funds and asset size<sup>1</sup>, having grown at twice the rate of total super industry assets in the five years to June 30, 2010<sup>2</sup>.*

*The jury is in. With the extraordinary growth trend projected to continue into 2012, we can no longer underestimate the importance of SMSFs to the future of superannuation in Australia.*

*Against this backdrop of strong sector growth we are pleased to bring you the second annual Intimate With Self Managed Superannuation report. The report was commissioned by Russell Investments in conjunction with the Self-Managed Superannuation Fund Professionals' Association of Australia (SPAA), and produced by leading market research consultancy CoreData, providing the pre-eminent quantitative analysis of Australia's growing SMSF market.*

*It is the culmination of research conducted among Australian SMSF trustees, financial advisors and accountants, and provides an insight into Australia's fastest growing superannuation sector.*

*This research puts the characteristics and behaviours of the SMSF trustee under the microscope, delving deeper into the mindset of the coach seeker, the controller and the outsourcer and showing year-on-year trends around their needs, financial knowledge, asset allocation and risk mitigation strategies, and reliance on professional advice. It showcases behaviour influenced by an uncertain market, and how the desire for more control and flexibility in retirement outcomes is driving greater trustee involvement in investment strategies.*

*The research also profiles advisors and accountants offering SMSF advice and administration services to identify the benefits and challenges in servicing this market, typical client profiles and expected future demand from this sector.*

*It highlights the appetite of advisors who, in order to meet this demand, find themselves on the cusp of a new advice proposition which focuses on value creation, against the backdrop of a shifting regulatory landscape and an increasingly savvy investor looking beyond product advice to a more strategic approach to their investment portfolio.*

*Intimate With Self Managed Superannuation is the benchmark for the changing and evolving SMSF sector. We hope you find the report insightful, and we welcome your feedback on future research areas.*

**Patricia Curtin**

*Managing Director, Retail Investment Services  
Russell Investments*

**Andrea Slattery**

*Chief Executive Officer  
SPAA*

<sup>1</sup> Australian Prudential Regulation Authority (APRA) Quarterly Superannuation Performance September 2011 (issued 8 December 2011)

<sup>2</sup> ATO Self-managed superannuation funds, A statistical overview 2008-09

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## **Russell Investments**

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## **SMSF Professionals' Association of Australia Limited ("SPAA")**

SPAA represents professional advisors who provide advice in the highly complex area of SMSFs advice. Their core focus is to raise the standard of advice provided by all professionals within the SMSF Industry and are committed to promoting a high standard of education among SMSF professionals and assisting them to work within the regulatory framework.

[www.spaa.asn.au](http://www.spaa.asn.au)

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# Snapshot

## Trustees in focus

### **The profile of SMSF trustees is becoming younger**

While the average balance in 2011 sits at \$849,694.90 and the median balance at \$525,000, there has been a noticeable increase in the proportion of SMSFs with balances of less than \$150,000, increasing to 20.4% from 8.2%. This can be attributed in large part to the growth in popularity of SMSFs among the younger generations, and the broadening appeal of SMSFs among middle Australia. Accumulators typically make up around half of SMSF advisors' client bases (48.0%). Recent statistics from the Australian Tax Office (ATO)<sup>3</sup> support this finding, noting that the age demographic of more recently established SMSFs tend to be younger (11%) than that of the total SMSF member population (5%).

### **SMSF trustees outperform in the long term, but returns take a hit**

According to the Australian Tax Office (ATO)<sup>4</sup>, SMSFs outperformed APRA regulated funds with more than four members between 2007 and 2009. Regardless of this outperformance during the last 12 months, 20.5% of trustees made a self-reported negative return, compared to only 1.5% in 2010. The proportion who made a positive return of less than 5% doubled while the number claiming a return of more than 11% fell to just one in five (20.4%) from 32.2% reflecting the global turmoil.

### **Confidence in meeting target retirement income plunges**

There has been a dramatic reduction in confidence, with half as many trustees now very confident of reaching their target income in retirement (17.2% vs. 34.1%). The reduction in confidence is due to the national and international environment which effects performance and returns and continued fears over future Government superannuation policy and the commitment to superannuation as Australia's savings vehicle.

### **Gender gap leaves female trustees exposed**

Despite their more moderate retirement income expectations, two in five female trustees (43.2%) say they will fall short of their target income, compared to only 27.1% of male trustees. The average female trustee anticipated she will need around \$1200 per week in retirement, compared to \$1700 for the average male trustee.

### **Off-market transfer ban could affect super contributions**

A large proportion of advisors think their SMSF clients would be likely (34.6%) or very likely (12.2%) to contribute less to superannuation if off-market transfers were banned.

<sup>3</sup> ATO Self-managed superannuation funds, A statistical overview 2008-09

<sup>4</sup> ATO Self-managed superannuation funds, A statistical overview 2008-09



## Lifting the bar – the advice opportunity

### Increasing advice demand from 'coach seeker' trustees

Around 70% of advisors believe the profile of the typical SMSF client is changing, with more than one third of these (36.1%) pointing to increasing demand from coach seekers. One in five advisors (17.3%) point to increasing demand from controllers and while the outsourcer segment is unlikely to favour an SMSF structure without professional advice and guidance, this latter segment should not be ruled out either. Outsourcers may be attracted to an advised proposition where the key decisions relating to the SMSF are handed to a third party; three in five have an advisor (58.4%), demonstrating their bias towards professional advice.

### Scoped advice an opportunity

Scoped advice offers a new way for advisors to tap into controller SMSF trustees and Generation X and Y, who want advice on their specific, point-in-time needs. The aspects of the advice offer most valued by those SMSF trustees seeking advice in 2011 are: investment advice (72.7%) and compliance advice (59.1%).

### Finding good professional advice still a challenge for trustees

More than one third of advisors agree the Future of Financial Advice reforms (FoFA) will lift professional standards for financial advice. However less than one in five (18.0%) agree consumers will be more confident that they will be getting professional advice services, while even fewer (17.1%) agree the reforms will lift consumer confidence in the financial services sector. Despite this, finding good professional advice remains the most challenging aspect of running an SMSF according to trustee respondents, with almost two in five (37.4%) saying this was 'very challenging', in line with 2010 (37.6%). This was supported by a recent "shadow shopping" exercise by the Australian Securities Investment Commission which revealed "high levels of poor quality advice", reinforcing the need for further education for SMSF professionals to build integrity in the industry.

The industry must look outward not inward and grasp FoFA as an opportunity to broaden the take up of professional advice.

### Retirement advice could boost confidence levels

Since the needs of retirees revolve around income requirements, rather than growth, there is an advice opportunity around the importance of income in retirement, and the need to review and possibly adjust asset allocations to ensure trustees meet their investment objectives and target income in retirement. This is particularly important given one in five trustees are now in the transition to retirement (TTR) phase (20.5%) and almost one third are retired (31.5%).

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## Cushions of cash

<b>High cash allocation here to stay</b>	Market uncertainty has caused trustees to hoard cash and sit on the sidelines, but they are no longer waiting for investment opportunities – holding cash is now a deliberate risk reduction strategy.
<b>Risk, not cost or return, driving asset allocation</b>	So strong is the focus on risk reduction, it has taken the lead as the key driver of asset allocation, overtaking cost (34.1% vs. 41.2%) and return (32.4% vs. 37.3%), which have both become lesser drivers in 2011.
<b>International managed funds fall out of favour</b>	One of the consequences of the financial planner's focus on risk reduction has been that international managed funds have fallen out of favour with SMSF trustees. The proportion of international equities allocations invested via managed funds has reduced to an average of 29.9% in 2011, down from 42.1% in 2010. This reflects the broader desire to reduce equities exposure and the fact that international equities can only be accessed via managed funds in the main.
<b>Equities considered 'too volatile'</b>	The proportion of SMSF trustees who believe that equities are too volatile has doubled to one third (32.4%) this year, up from just 17.0%. Only 6.3% say they haven't had time to invest their cash but plan to do so over the coming year, down from 14.4% in 2010 – again reinforcing that the allocation to cash is a deliberate risk reduction strategy.

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## Future Growth

<b>Contribution cap limits have \$12.4 billion impact</b>	Around two in five SMSF trustees would have contributed on average an extra \$64,875 each to their SMSF if the contribution cap limits were raised, equating to a collective contribution of \$12.4 billion. This is slightly lower than last year's \$15.1 billion, suggesting the global economic turmoil has affected people's willingness to invest. This reduction will significantly impact Government's objectives of adequacy and building a national investment pool.
<b>Insufficient assets a perceptual barrier</b>	Lack of knowledge remains the number one barrier to establishment of an SMSF, however the second most common barrier to establishing an SMSF is consumers' perception that the size of their super assets does not justify having one. Yet many of those who hold this perception have balances of at least \$350,000, a level at which having an SMSF may indeed make sense.

## Future Growth cont...

**Generation X/Y an emerging growth segment**

In recent years, the SMSF vehicle has begun to attract a younger demographic. Some 13.7% of Generation X respondents (aged 31-45 years) and 10.0% of Generation Y respondents intend to establish an SMSF within the next two years, compared to 10.5% of Baby Boomers. The increasing demand from younger people with lower balances might reflect the heightened focus on holding assets that can be purchased directly and cheaply. Many advisors servicing the SMSF sector say they are increasingly targeting accumulator trustees.

**Advisors go after SMEs**

Advisors have ramped up their focus on small business owners with two in five advisors (38.8%) claiming more than 50% of their client base is small to medium-sized enterprise owners (SMEs), up from just 22.5% last year. According to the Australian Bureau of Statistics (ABS), there are around 2 million SMEs in Australia, including non-employing enterprises<sup>5</sup>. Many advisors claim SMEs, self-employed and professionals are the ideal candidates for an advised SMSF.

**Women need advice and guidance**

While only 16.1% of female respondents currently have an SMSF, women are an inevitable growth segment for the SMSF sector in future. The gap in both their perceived knowledge and understanding and confidence in achieving their desired income in retirement compared to their male counterparts, make females an ideal target for the professional advice industry. According to the Association of Superannuation Funds Australia (ASFA), in the financial year 2009-10 women held around 37.0% of total superannuation account balances, compared to 63.0% for men<sup>6</sup>.

<sup>5</sup> 8165.0 - Counts of Australian Businesses, including Entries and Exits, Jun 2007 to Jun 2009

<sup>6</sup> ASFA Research and Resource Centre: Developments in the level and distribution of retirement savings, September 2011

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## Methodology

The second annual *Intimate With Self managed Superannuation* research report is sourced from a collection of quantitative and qualitative data gathered from SMSF trustees and professional advisors between September and November 2011.

Two online surveys were developed and hosted by CoreData following liaison with SPAA and Russell Investments.

### SMSF trustee research

#### Online survey

The trustee survey was conducted from 19th September through to 26th October, the primary target being SMSF trustees. Data was also collected from members of other super funds (excluding SMSFs) and high net worth individuals (HNWIs) without SMSFs to compare and contrast the views of trustees against APRA-regulated fund members.

Respondents were sourced from CoreData's proprietary panel of more than 100,000 Australian consumers, SPAA's member network and National Seniors Australia.

A total of 1,406 Australian consumers were surveyed, of whom 337 were SMSF trustees and 174 HNWIs without SMSFs.

#### Focus group

A focus group among eight SMSF trustees was held on the 21st November in the Sydney CBD. The session ran for one and a half hours and was used to develop a deeper understanding of SMSF trustee behaviour and their future intentions.

### SMSF advisor research

#### Advisor survey

The trustee survey was conducted from 20th September through to 17th October and targeted professional advisors (including accountants) who provide advice and administration solutions for SMSF clients.

Respondents were sourced from CoreData's proprietary panel of Australian financial advisors and the SPAA member network and included primarily financial planners, accountants and practice principals, as well as a small number of paraplanners, auditors and lawyers.

A total of 513 responses were recorded for this component of the research.

## Detailed findings

### Trustees in focus

*“A lot of people have benefited from a parting gift from John Howard, but how long is that going to stay? Every new government comes in, they’re just going to look at this huge pot of money and think ‘Well maybe we should mandate using some of that to build bridges and roads and high speed trains’.”*

(Male Focus Group Participant, Retiree SMSF trustee)

### General

The second annual *Intimate with Self-managed superannuation* report delves further into the nature of the trustee to discover what’s driving behaviour in this burgeoning segment of the superannuation sector.

According to the Australian Taxation Office (ATO), SMSF assets grew twice as quickly as the total industry for the five years to June 2010<sup>7</sup>.

The report claimed assets grew by 122.0% for the five years to June 2010 – double the rate of growth in the total superannuation sector.

Establishments (net of windups) averaged 25,000 a year or 2,100 a month between 30 June, 2005 and 30 June, 2010.

This year’s *Intimate with Self-managed superannuation* report reveals almost half of SMSFs (48.7%) have been established for seven years or more, while 20.1% have been around for three years or less, consistent with the ATO’s report.

According to the Australian Prudential Regulation Authority (APRA), at 30 September 2011 SMSFs held the largest proportion of superannuation assets, accounting for 31.1% of assets, followed by retail funds with 27.5% of total assets<sup>8</sup>.

Industry funds accounted for 18.9% of total assets, public sector funds 15.3% and corporate funds 4.3%. Small APRA funds held 0.2% of total assets.

Last year’s inaugural *Intimate with Self-managed Superannuation* report flagged the emergence of a new profile of SMSF trustee – the ‘coach seeker’ – with the growth in this segment borne out in this year’s results.

The coach seeker tends to seek external affirmation for their decisions, and while they would rather do things themselves, they need information and support in their decision-making and are often looking for someone to help or mentor them. Coach seekers make up around 50% of the total population.

While growth in the SMSF sector to date has been largely among ‘controllers’, who make up around 20% of the Australian population but 37.1% of the trustee sector, our assertion in 2011 was that since two in five controllers already had an SMSF (42.1%), compared to just 27.8% of coach seekers, further initial future growth was likely to come from the coach seeker segment.

7 ATO Self-managed superannuation funds: A statistical overview 2008-09

8 APRA Quarterly Superannuation Performance, September 2011 (issued 8 December 2011)

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Controllers are interested in managing their money and like doing it themselves, often with limited support from professional advice services.

Outsourcers would rather someone else manage their money and finances and are more open to an advice relationship, however only 11.3% of trustees are outsourcers, reflecting the fact that the traditional DIY perception of the SMSF does not gel with their preference for delegating management of their finances.

However, the outsourcer segment should not be ruled out by advisors servicing the SMSF sector. This segment, while unlikely to favour an SMSF structure without professional advice and guidance, may be attracted to an advised proposition where the key decisions relating to the SMSF are outsourced.

In fact three in five outsourcers (58.4%) already have an advice relationship, compared to only 28.8% of controllers and 46.8% of coach seekers.

Around seven in 10 advisors believe the profile of the typical SMSF client is changing, with more than one third of these (36.1%) pointing to increasing demand from coach seekers. One in five advisors (17.3%) point to increasing demand from controllers.

One third of advisors admit that their clients direct the investment strategy for their SMSF, with 27.6% saying they do so 'to a large extent' and 6.1% saying they do so 'almost entirely' (6.1%). Almost half say the client directs strategy 'to some extent' (46.8%).

This latter segment expresses the characteristics of the coach seeker, and confirms there's a growing attraction to SMSFs from people who are not the traditional controller type.

## Crisis of confidence

The past 12 months have been particularly challenging for investors and advisors, with continued global economic woes spurred by the US and European debt crisis heavily weighing on consumer confidence.

CoreData's Investor Sentiment Index revealed a decline in sentiment throughout 2011, with confidence falling from -4.3 in Q1 to -22.4 in Q4 – lower than confidence levels experienced during the height of the global financial crisis (GFC) and the lowest point ever in the history of the index, which dates back to early 2005.

The general uncertainty that permeated the investment landscape has carried through into superannuation, partly due to concerns over Government policy changes and partly due to the return environment.

Total estimated superannuation assets increased just 2.0% to \$1.28 trillion in the 12 months to September 2011, with SMSF assets decreasing by 3.5% .

There has been marked deterioration in the proportion of trustees who are very confident about achieving their target retirement income. Only 17.2% are very confident about this, half the proportion of respondents who were very confident in 2010 (34.1%).

The decrease in confidence in meeting their desired level of income in retirement is being driven to a large extent by recent superannuation returns.

According to APRA, the average rate of return (ROR) for fund entities with at least \$50 million for the year to September 2011 was -1.0%. Corporate funds generated a return of -0.6%, public sector funds -0.7%, industry funds -0.1% and retail funds -2.7%.



The estimated return on assets for SMSFs was positive for the year ended 30 June, 2007, however this was followed by negative returns in the years ended 30 June, 2008 and 2009 (16.7%, -6.3% and -6.7% respectively)<sup>10</sup>.

Comparisons to APRA regulated funds of more than four members showed the same trend for the three years (14.5%, -8.15% and -11.7% respectively), however the ATO cautions that while the methodology used to estimate SMSF performance resembles APRA's, the data collected is not the same.

Of those who were aware of the return they achieved on their SMSF in the last 12 months, two thirds of trustees claimed to have made a positive return (65.6%), while 20.5% made a negative return, compared to only 1.5% in 2010.

However, with renewed market turmoil affecting balances across the board, there was a considerable fall in the level of self-reported returns being generated.

This year, the proportion of trustees who claimed to have made a positive return of less than 5% doubled to 22.2%, from 11.4% in 2010, while the proportion who achieved between 5 and 10% also jumped to more than half of trustees (57.4% vs. 49.5%).

The commensurate returns at the high end of the scale likewise underwent a turnaround, with the number of trustees claiming to have achieved a return of more than 11% falling to just one in five (20.4%), down from 32.2% last year.

While the SMSF sector has less access to clear benchmarks against which to measure their performance, the large majority of trustees claim to measure their performance against some pre-determined metric.

Almost one third of trustees (31.1%) say that they personally set performance targets to meet their own calculations regarding the level of income required in retirement, while just over one quarter measure their return against the All Ordinaries (27.5%).

A further quarter (25.6%) use the Consumer Price Index (CPI) plus some pre-determined amount, while just over one in five (22.3%) rely on guidance from their advisor.

Only 15.8% say they do not use any benchmark for measuring their SMSF's performance.

### Trustees polarised

While confidence in meeting target retirement incomes has been impacted by the low return environment, confidence in the superannuation system in general is also being damaged by continued fears over future government superannuation policy.

*"Politicians keep changing the superannuation regime. Politicians and public servants keep making it more complex every year. There is little continuity. I do not trust successive governments to stop fiddling with it. There are too many rule and regime changes."*

(Male respondent, aged 56, NSW)

Interestingly, while this attitude prevails, trustees are polarised over what impact this has on their actual investment behaviour.

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Some say that due to the uncertainty about the future direction of government policy, the bulk of their investments are held outside super – while others claim that the tax incentives of investing in super outweigh the potential future risk.

*“I do have a substantial amount in super, but that represents about 10% of my financial investments. So 90% is not in super and that’s because if I wish I’m out of here. Snap.”*

(Male Focus Group Participant, Retiree SMSF Trustee)

*“The governments will probably keep on tweaking superannuation, but it’s just kept on getting better and better.”*

(Male Focus Group Participant, Accumulator SMSF Trustee)

This year’s research provided further evidence that with control comes confidence, reflected in the vastly different levels of confidence between SMSF trustees and the APRA fund sector.

Trustees and non-trustees hold almost polar opposite views with regards to their confidence in the superannuation system.

Just under a quarter of trustees (22.8%) feel ‘very confident’ in the system, while one quarter of non-trustees (23.5%) are ‘not confident at all’ in the system.

Likewise, two in five trustees (41.2%) are ‘quite confident’, compared to just 25.9% of non-trustees.

The qualitative research suggested some trustees do not trust the APRA fund sector’s ability to manage their money competently, driving them to take control via the establishment of their own SMSF.

Many say that the SMSF has lived up to their expectations – regardless of the fact that they have suffered poor or negative returns over recent years – largely because the responsibility for their money is all theirs, and they can learn from their mistakes when it comes to investment.

*“I’m pretty satisfied. I feel as though I’ve got control over the money I’m investing. Most of it [is] in term deposits, but I’ve got some of it aside in a savings account just in case I want to join in the share market when things stabilise and I feel as though in the future I will, but I just need that stabilisation. At the moment it’s a rollercoaster as you all know.”*

(Male Focus Group Participant, Retiree SMSF Trustee)

*“I’m about 90% positive about the income I will be getting in the future. Unlike before, years ago, I wasn’t feeling like that. I thought there’s a good chance I wouldn’t have any money in retirement, the way things were going. Having the self managed super fund [changed things] – the control and the certainty of engaging yourself for the future.”*

(Male Focus Group Participant, Accumulator SMSF Trustee)

**Gender gap**

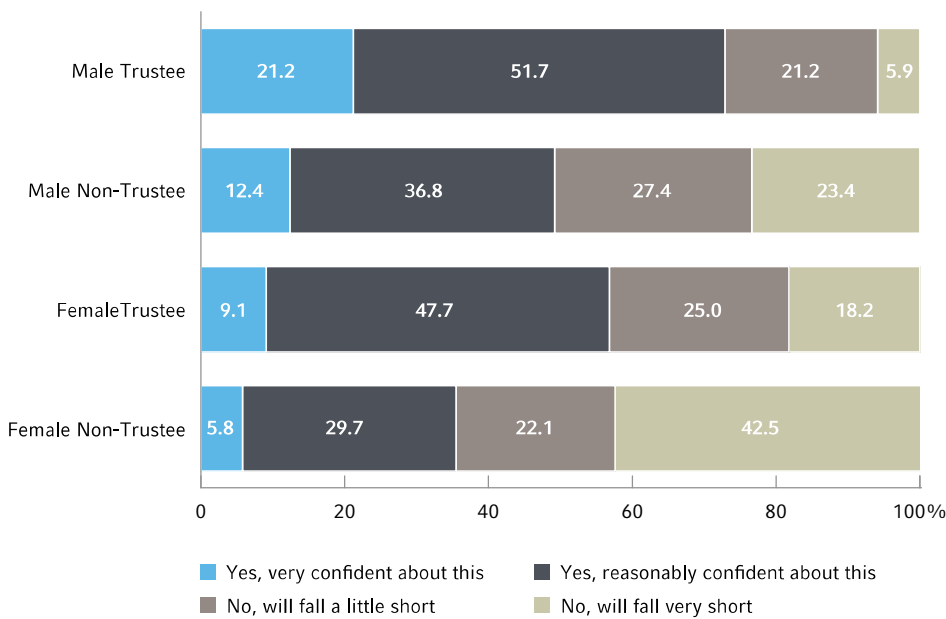
It is broadly recognised that there is a gender gap when it comes to perceptions of financial knowledge and understanding.

Women typically express greater levels of anxiety around their finances, are more likely to worry that they will not have enough money to live comfortably when they retire, and to say they want to manage their money and finances themselves but require information to support their decisions.

This year’s research reveals that less than one in five women (17.8%) rate their investment knowledge as either strong or very strong, compared to 41.1% of men. Conversely, some 28.8% of women rate their knowledge as poor or very poor, while only 11.9% of men claim to have this level of knowledge.

The gender gap is likewise evident among male and female SMSF trustees.

**Figure 1 – Do you think you're on track to achieve your target retirement income?**



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While one in five male trustees (21.2%) are very confident that they're on track to achieve their target retirement income, only 9.1% of female trustees claim to be. Further, while one quarter of male trustees (27.1%) think they will probably fall short in meeting their target income to some extent, two in five female trustees (43.2%) say they will fall short.

The results suggest that for women, lack of perceived knowledge is a large contributing factor in the lack of confidence in ability to meet their target income in retirement.

This gap is striking when put in the context of expectations for weekly retirement income, with female trustees expressing much more modest expectations than their male counterparts.

Around one quarter of female SMSF trustees (26.7%) believe they will need \$800 or less per week in retirement, compared to 17.0% of male SMSF trustees. Similarly, almost two in five male trustees (37.3%) believe they will require more than \$1,500 per week, compared to only 22.2% of female trustees.

So even with these modest estimates for income needs, women still think they're going to fall short.

There is clearly a need for greater focus by the financial services industry on educating and assisting women in planning for their retirement - particularly given female trustees play a strong role in the financial decision making about their SMSF.

Although there are not substantial differences between the genders, women tend to play a collaborative role, with more than one third of female trustees (36.6%) saying they share in making all the financial decisions with their spouse, who is also a member of the SMSF.

They are slightly less likely than male trustees to say they usually make all the financial decisions regarding their SMSF (29.3% vs. 35.7%).

### Advising trustees

This year's research shows the proportional split, by number of clients, between SMSF and non-SMSF clients has shifted.

The average professional advisor respondent has two in five SMSF clients (40.2%), up from 35.4% last year, versus three in five non-SMSF clients (59.8%), down slightly from 64.6%.

The number one aspect trustees look for when seeking a professional advisor remains investment expertise. However, among the top five aspects are; rapport and recognised professional qualifications, emphasising the importance of both hard and soft skills for advisors servicing this sector.

Building rapport and engaging clients is not possible without personal contact, and this year's research suggests those advising and/or administering SMSFs are frequently in contact with their SMSF trustee clients.

Almost one third of advisors say they are in direct contact (either by phone or face to face) with the typical SMSF client at least monthly, while a further two in five speak to their clients on a quarterly basis (40.9%).

The results suggest those advising SMSFs are well placed to deal with the Government's proposed two-yearly opt-in requirement, since they are already in frequent contact with their clients.

Yet regulatory and legislative change is perceived to be the greatest challenge in advising SMSF clients, overtaking compliance obligations – the number one challenge in 2010 – suggesting a need for guidance and leadership from the industry to help advisors navigate the points of challenge within the regulatory landscape.

Managing trustee expectations has become a more prominent challenge for advisors in 2011, possibly reflecting the difficult market conditions and the tendency of investors to link the value of advice to investment returns.

Encouragingly for the industry, managing trustee obligations is considered less challenging this year, however the focus on educating trustees about their role and responsibilities must continue.

*“The major problem is education and emphasising the problems associated with non-compliance.”*

(Male, 15 years in practice, Vic)

Fewer respondents this year rated their SMSF clients' understanding of their obligations and responsibilities as strong (based on a 7-10 rating), 29.8% compared to 34.8% last year.

Conversely, the proportion who gave a moderate rating (4-6) increased to almost half (47.6% vs. 43.7%).

### Off-market transfers

A key aspect of the Government's Stronger Super reforms includes a ban on off-market transfers for SMSFs.

Under the measures, all off-market transfers between SMSFs and related parties must be conducted on market where a ready market exists, to remove any potential for manipulation of capital gains tax or excess contributions tax.

While off-market transfers are not common – 79.4% of trustees say they never make off-market transfers – the restriction, which does not apply to APRA regulated funds, will put trustees that do utilise off-market transfers involving listed shares at a disadvantage.

While only 15.1% of those advising the SMSF market make off-market transfers on behalf of their trustee clients 'regularly' (several times a year), a further two in five (41.5%) make them occasionally (few times in past years).

A large proportion think their SMSF clients would be likely (34.6%) or very likely (12.2%) to contribute less to superannuation if off-market transfers were banned.

Only 1.7% believed their clients would be likely to contribute more, while around half (51.5%) said they anticipated no change in their trustee clients' contributions.

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## Lifting the bar – the advice opportunity

*“You can go off to virtually anything to clock up your CPD hours. You can do any of your training... online with multiple choice questions which doesn't test competency at all. So that façade of educated financial advisors is not true.”*

(Male Focus Group Participant, Accumulator SMSF Trustee)

### General

There is a strong drive within the financial planning industry to raise the bar for professional standards among advisors.

Industry bodies, licensees and professional services companies have been working with advisors to boost education standards as a means for improving not only the quality of financial advice being provided to Australians but consumer trust in financial planning in general.

Despite the controller nature of many trustees, SMSF trustees typically show greater take up of advice relative to non-trustees.

In 2011, two in five SMSF trustees state that they have a dedicated financial advisor – a slight year-on-year increase (37.8%). In contrast, only one in five (20.5%) non-trustee respondents have a dedicated advisor, a decrease of 5.8 percentage points on 2010.

Controller trustees (7.2%) are much less likely than coach seekers (23.0%) and outsourcers (44.7%) to have set up their SMSF on advice from their financial planner, again confirming that these latter segments offer a large, untapped opportunity for advisors.

The majority of professional advisors who participated in the study were financial planners (42.9%), while around one in five were accountants (22.4%) and more than one quarter were practice principals (27.1%).

A small number of paraplanners, auditors and lawyers also took part in the research.

Of those who took part, only 10.3% do not offer SMSF services. Around half (48.2%) say they are advising only (for example tax strategy, fund structure, investments, asset allocation, auditing), down slightly from 50.3% last year, while more than one third (34.8%) are providing administration as well as advice, compared to 35.7% in 2010.

### Building trust

A key challenge for the advice industry comes in the fact that the media remains a much more heavily utilised source of information for financial decision-making among both trustees and non-trustees than professional advisors and accountants.

Heavy usage of the media reflects the controller behaviour of many trustees, who prefer to do their own research rather than rely on professional advice – or couple the advice they get from their professional advisor with insights gained from other sources.

More than half of trustees typically turn to the financial media when making financial decisions (52.5%), on par with last year (54.8%), and a further 46.9% refer to general newspapers, magazines and websites (46.9%), compared to 48.7% in 2010.

The reliance on professional advisors has remained stable at around two in five (40.4% vs. 41.8%), as has usage of the ASX (38.0% vs. 36.0%).

Fewer trustees, however, are relying on broker newsletters in 2011 (32.3% vs. 38.1%).

Lack of trust in advisors' ability to act in the best interests of their clients, continues to permeate the mindset of many Australians who do not seek advice – partly due to an inability to decouple investment returns from the less tangible aspects of advice.



The primary reason given by those trustees who do not seek advice for rejecting the need for a dedicated advisor is the belief that they just try to sell products to benefit themselves (46.0%), however this is closely followed by the general attitude 'I do not need one' (41.0%).

Just two in five trustees (42.1%) have a dedicated financial advisor and while this is much higher than among non-trustees (20.5%), there is a long way to go to convince the broader trustee and non-trustee market of the value of advice.

Both the qualitative feedback from the trustee focus group and quantitative feedback via the online survey suggests the jury is still out on advice for many trustees.

The controller trustee focus group participants suggested that the type of advice they required was strategic not product-based and that those advising the sector need to hone their value propositions to better appeal to unadvised trustees.

*"We need someone who's in the middle between an accountant and advisor, it's someone with the technical information about those strategies. It's strategic, not product based. How we would ever get that I don't know because where would the income come from?"*

(Male Focus Group Participant, Accumulator SMSF Trustee)

There has been a slight year-on-year reduction in the number of trustees that believe advisors just try to sell products to benefit themselves, down from 50.0% last year, as well as a reduction in the proportion who feel they can do a better job themselves (38.8%, down from 45.2% last year).

The research also suggests that part of the scepticism of advice is down to the fact that people lack information about where to go to find credible sources of advice.

*"I need an accountant to [set up an SMSF], I just have not get around to find the right accountant whom I can trust."*

(Female non-trustee, aged 57, NSW)

Indeed, finding good professional advice remains the most challenging aspect of running an SMSF according to trustee respondents, with almost two in five (37.4%) saying this was 'very challenging', in line with 2010 (37.6%).

It remains to be seen whether the Future of Financial Advice reforms (FoFA) will increase consumer confidence in advisors, but at this stage, advisors remain unconvinced that the reforms will make much of a difference.

While more than one third (36.7%) agree they will lift professional standards for financial advice, less than one in five (18.0%) agree consumers will be more confident that they will be getting professional advice services, while even fewer (17.1%) agree the reforms will lift consumer confidence in the financial services sector.

Just one in 10 believe they will encourage more people to seek financial advice.

On the flip side, almost half of advisors (47.1%) expect the reforms will have either a 'very negative' or 'somewhat negative' impact on them as an advisor while only one quarter (27.2%) believe the reforms will have a positive impact.

### Advisors upskilling

Much of the impetus for a move to professionalism is due to regulatory change, which is forcing advisors to skill up to meet the increasingly high standards being expected of those who are providing financial advice to Australian consumers.

SPAA has experienced a 65% surge in the number of SMSF professionals who achieved its SMSF Specialist Advisor (SSA) and SMSF Specialist Auditor (SSAud) qualifications over the past 12 months, fuelled by the increased focus on professionalism.

The number of SSAs grew 62% or by 384 advisors, to 1004. Further, some 24 education providers are listed on the association's National Training Register, offering 26 training programs or activities for SMSF professionals.

The drive towards professionalism is a positive evolution for the industry, however it is important that the qualifications being undertaken are aligned to the needs of consumers and reflect expected future demand.

The aspects of the advice offer most valued by those SMSF trustees that seek advice in 2011 are: investment advice (72.7%) and compliance advice (59.1%).

Tax advice and retirement planning are also highly valued this year (51.5% respectively) and those who don't have a dedicated advisor also select tax advice as the top area in which they require professional advice or assistance (61.2%), suggesting this is a key gap where advisors have a role to play.

Other areas where the unadvised require assistance include compliance (46.8%) and estate planning (22.3%).

The appetite for borrowing among trustees remains low, with only 8.6% of trustees having borrowed to invest in their SMSF portfolio, and a further 13.0% planning to do so.

Some 75.6% have not borrowed to invest and do not plan to, in line with last year (77.4%).

Despite this, almost half of advisors provide advice on gearing in super (48.0%), and the proportion of advisors who are focusing advice in this area has increased year-on-year, up from 38.7% in 2010.

Almost half of advisors (47.1%) have provided advice on the new borrowing rules to clients to purchase a residential or commercial property in their SMSF via an instalment warrant, up from 42.1% last year.

The new measures were applied to limited recourse borrowing arrangements for SMSFs put in place on or after 7 July, 2010 or to refinances of existing loans on or after this date.

It's important for advisors to ensure they are focusing their education efforts in the right areas, to get the most bang for their buck.

### Spotlight on compliance

Approved auditors are required to submit to the ATO, as part of the annual audit, Auditor Contravention Reports (ACRs) that disclose SMSF contraventions according to ATO reporting guidelines. These range from minor administrative contraventions to more serious contraventions, such as breaches in relation to investment in in-house assets<sup>11</sup>.

According to the ATO, the percentage of the SMSF population with ACRs from the year ended 30 June, 2004 to 30 June, 2009 audit years has remained relatively stable at approximately 2% of all SMSFs each year.

There were 8,126 SMSFs that had ACRs lodged containing 17,866 contraventions in the year ended 30 June, 2010. Just under half of these were reported as rectified.

The most common reported contraventions were loans or financial assistance to members, in-house assets and separation of assets.

A combination of trustee education and professional advice appears to be behind the low level of breaches of the prescribed contribution caps in the last 12 months.

The penalties for exceeding the prescribed contribution caps are not insubstantial, however only 3.3% of trustees said that they or their employer contributed in excess of the caps, which resulted in them or their fund having to pay excess contributions tax in the past 12 months.

The most common reason for the breach was an administration oversight by them or a member of their fund.

### Fee-for-service

Under the FoFA reform package, conflicted remuneration structures including commissions and volume based payments in relation to the distribution and advice of retail

investment products will be banned from July 2012 for new financial planning clients.

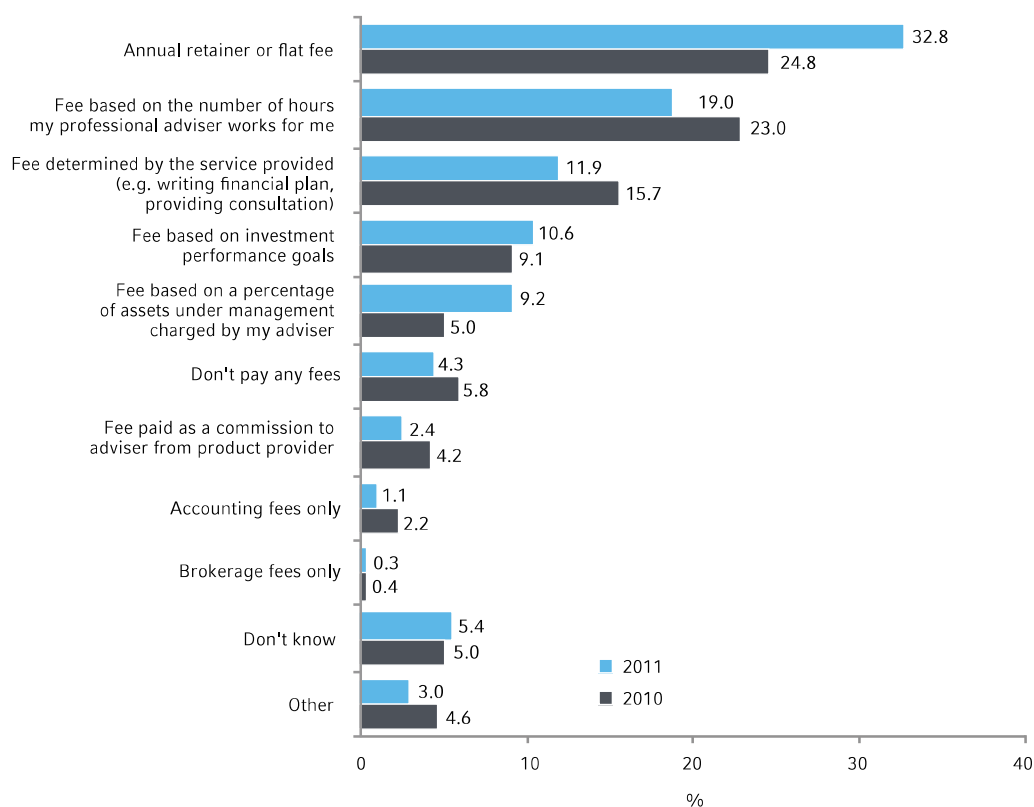
This has been a bone of contention for many industry participants, however the research suggests advisors are well on their way to transitioning to a fee-only environment, with almost one third of trustees paying an annual retainer or flat fee for advice services (30.4%), up from 22.5% last year.

This payment method has now overtaken fee based on the number of hours the advisor works (19.9%) as the most common method of payment.

Some 16.1% pay a percentage of assets based fee, on par with last year (15.1%).

**Figure 2 – How do you currently pay / How would you prefer to pay the fees and costs relating to your SMSF?**

\*Multiple answers allowed  
n = 337 (2011), 431 (2010), respondents who have SMSF



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These methods remain the most preferred methods in 2011, however trustees are showing a greater preference for annual retainers this year.

When asked how they would prefer to pay the fees and costs relating to their SMSF, almost one third listed annual retainer or flat fee (32.8% vs. 24.8% last year), while one in five preferred to pay a fee based on the number of hours worked, slightly down on last year (19.0% vs. 23.0%).

The approximate average amount of fees and costs paid on an SMSF annually (including related advice, compliance and accountancy costs) is \$4,268, up from \$3,670 in 2010.

The proportion of trustees who are paying less than \$1,000 has decreased to 14.6%, from 22.0% last year, while the proportion paying more than \$5,000 has increased to one quarter (24.9%), up from one in five last year (20.3%).

### Scoped Advice

The changes in the regulatory landscape including the shift to fee-for-service – an approach already widely adopted among SPAA members - are creating opportunities for advisors to increase the take-up of financial advice.

SMSF trustees are an obvious candidate for scoped advice, since they express a preference for receiving their advice in a piece-by-piece manner.

Since the GFC the number of mass affluent and HNWI's seeking to invest without advice has effectively doubled, up to almost 22% of all respondents<sup>12</sup>.

So far the bulk of this new "direct" investment has been into cash.

The structuring of the financial planning industry around commissions and ongoing revenue has in the past removed any incentive for advisors to provide scaled or scoped advice to their clients.

However, with the move towards fee-for-service and business valuations on an EBIT rather than multiples, the barriers to providing scoped advice have been largely removed.

While limited advice is an area that many have assumed will apply only to the lower end of the market, this research reveals such an offer may be a way to tap into the controller SMSF trustees, who want advice only on their specific, point-in-time needs – such as transition to retirement.

*"I think it's quite difficult to get advice on specific issues. I've tried a couple of times to get advice on transition to retirement issues and this kind of thing and it's really quite hard."*

(Male Focus Group Participant, Retiree SMSF Trustee)

*"There may be specific questions that people have, like the contribution limits and how they work exactly because you don't want to break the rules and it can be actually quite hard to find out. You can spend hours on the Tax Office website in various places and not get an authoritative statement on how things work. In fact I don't know where you do get answers for all of these things."*

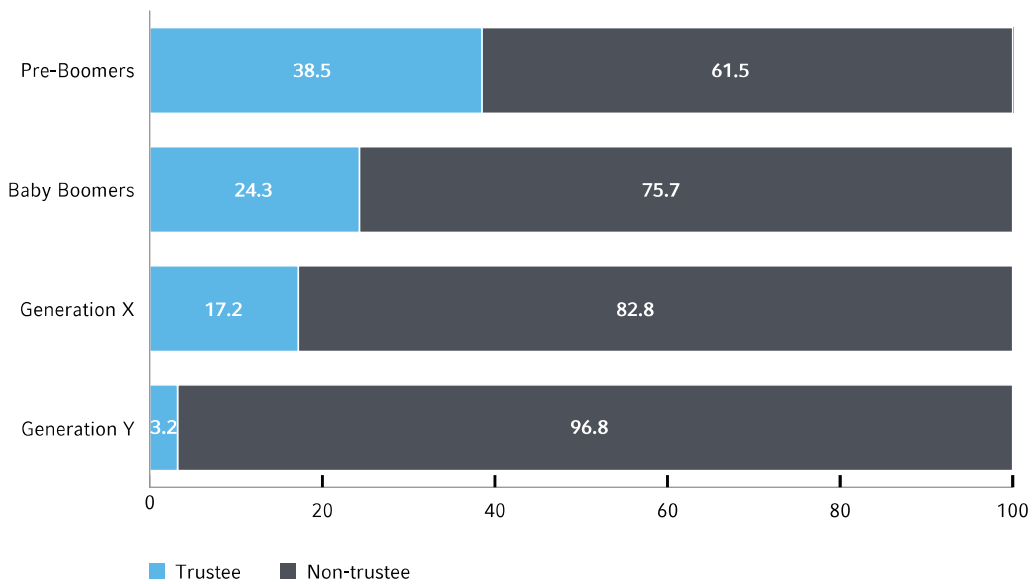
(Male Focus Group Participant, Accumulator SMSF Trustee)

While limited advice needs span across many generations, the provision of scoped advice could also help boost take up of professional advice by accumulator SMSF trustees in the younger generations.

At present, accumulators typically make up around half of SMSF advisors' client bases (48.0%), while transition to retirement clients account for one fifth (20.5%) and retired clients just under one third (31.5%).

Of the SMSF trustees in the sample, the majority are classified Baby Boomers (58.1%), however one in five (22.0%) are Generation X, while 15.5% are Pre-boomers and 4.4% are Generation Y.

**Figure 3 – Trustee vs Non-trustee Generations**



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But in recent years, the SMSF vehicle has begun to attract a younger demographic. Some 13.7% of Generation X respondents (aged 31-45 years) and 10.0% of Generation Y respondents intend to establish an SMSF within the next two years, compared to 10.5% of Baby Boomers.

Many advisors servicing the SMSF sector say they are increasingly targeting accumulator trustees.

*“Accumulators with busy lifestyles who are seeking a close relationship with the advisor and happy to hand over the daily management of their super.”*

(Female, 15 years in practice, Vic)

*“Accumulators seeking more control, typically business owners”*

(Female, 4 years in practice, NSW)

Further evidence of this new growth segment can be seen in the analysis of the average SMSF balance. While the average balance in 2011 sits at \$849,694.90, there has been a noticeable increase in the proportion of SMSFs with balances of less than \$150,000, increasing to 20.4% from 8.2%.

This can be attributed in large part to the growth in popularity of SMSFs among the younger generations.

Indeed, all Generation Y respondents with SMSFs fell into the \$50,000 to \$150,000 balance band, while 42.9% of Generation X respondents fell into that same category.

The median balance of an SMSF trustee in 2011 is \$525,000, backing up claims that the average balance is being dragged up by the one quarter of trustees (24.4%) with balances of more than \$1 million.

In 2011, one quarter of trustees (24.4%) have a balance of \$200,000 or less, the amount which the Super System Review 2009<sup>13</sup> found to be the size wherein having an SMSF becomes economically viable.

Some 54.2% of the population are currently under the age of 40 (around 12,261,026 people), with 28.8% of these aged between 20 and 39<sup>14</sup>.

The increasing demand from younger people with lower balances might reflect the heightened focus on holding assets that can be purchased directly and cheaply.

With technological advances and the ability to invest directly now in most major asset classes via trading platforms, SMSFs could become more viable from a cost perspective for the younger demographic.

<sup>13</sup> A Statistical Summary of Self-managed superannuation funds. Australian Government Review into the Governance, Efficiency, Structure and Operation of Australia's Superannuation System, 10 December 2009.

<sup>14</sup> Australian Bureau of Statistics, Australian Demographic Statistics, June 2011 (released 19 Dec, 2011)



## Cushions of Cash

*“The things that I’m worried about I have no control over whatsoever. So all I can do is arrange my affairs so that I’ve got as much protection as I think I need and then just let the world take its course.”*

(Male Focus Group Participant, Accumulator SMSF Trustee)

### General

A wall of cash has been building in the Australian system since the global financial crisis, as investors seek a safe haven in the face of continued global economic uncertainty.

Total Australian Deposit-taking Institution (ADI) deposits jumped 7.4% in the year to September 2011, or \$40 billion, to \$580 billion.

There is not yet any evidence of the cash bounty being re-allocated back to other assets, and there is unlikely to be so while ADIs offer interest rate returns of towards 6%.

This trend has had a huge impact on financial advisors, many of whom have turned to risk insurance as a diversified revenue source.

Large swathes of cash have likewise been building within the superannuation system, via both SMSFs and the APRA fund sector.

Reflecting this trend towards less risky assets, bonds and other fixed interest investments and products have become the area most commonly advised on by those providing advice to the SMSF market (76.8%) – overtaking direct Australian shares in 2011 (65.4%). This is closely followed by advice on cash investments, including savings and term deposits (72.9%).

### Risk reduction

SMSFs have long held strong cash holdings, in part due to the fact that many of them hold investments outside of the superannuation system.

But while in 2010 trustees were waiting for a better investment option, in 2011 the primary driver is risk reduction.

While most cash holdings are reported to the ATO at 30 June, the *Intimate with self-managed superannuation* report provides a different perspective of trustee cash holdings.

Last year, more than half of those with a greater than 10.0% allocation to cash said they were waiting for a better investment option. In 2011, only two in five (44.3%) say this is the case.

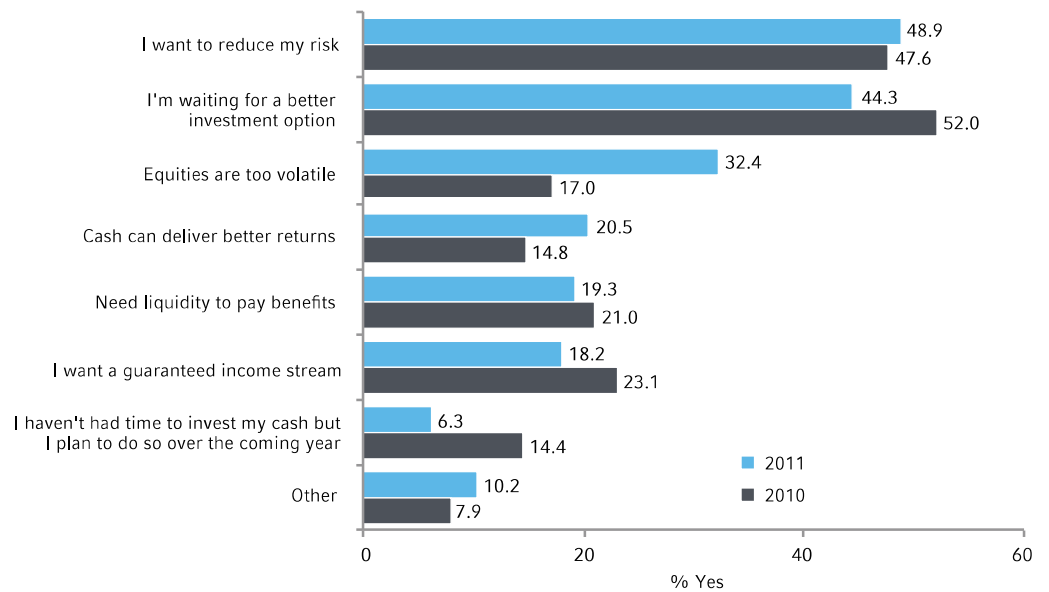
This year, the number one reason for overweighting cash is a desire to reduce risk (48.9%) – it is now seen as the most appropriate asset class to achieve this objective.

The focus on risk reduction, over and above return, is also evident in trustee behaviour. The amount of time spent researching new investment opportunities by trustees has reduced from an average of 1.8 hours per week to 1.5 hours per week. Time spent on all other aspects – monitoring performance, administrative and compliance tasks, and acquiring/divesting investments, remained largely on par with 2010.

Further, the proportion of SMSF trustees who believe that equities are too volatile has doubled to one third (32.4%) this year, up from just 17.0%.

**Figure 4 – What is the reason for your current allocation to cash? (2011 vs. 2010)**

*\*Multiple answers allowed  
n = 176 (2011), 270 (2010), respondents who have SMSF AND who allocate at least 10% to cash*



This is particularly interesting given that when the risk preferences of trustees are compared to members of the APRA regulated funds, trustees express a greater preference for higher risk strategies.

One third of trustees (33.5%) claim to prefer a more risky investment strategy for their superannuation, even though in some years they may earn poor or negative returns, compared to only one quarter of non-trustees that share this preference (24.5%).

Despite the extraordinary events of 2011, self-attributed risk appetite levels amongst trustees remained on par with 2010.

The proportion of trustees with a high risk appetite declined only marginally to 25.6%, from 27.1%, while the proportion with a low risk appetite remained the same (19.9%).

Meanwhile, risk appetites in the APRA fund sector took a bigger hit; the proportion of non-trustees who claimed to have a high risk appetite this year was just 14.0%, down from 17.9% while the number with a low risk appetite jumped to 42.1% from 34.5% in 2010.

This apparent mismatch between risk preferences of trustees and actions makes sense when considered in the context of the qualitative research findings, which suggest that a two-speed investor universe may be at work, with some trustees viewing the current climate as an opportunity, and others running for cover.

Further, the high cash allocations – which seem to fly in the face of the stated preference for risk – could be due to the typically higher asset bases of SMSF trustees, and consequently higher levels of capital protection.

*“I’m at about 90% Aussie, all Aussie equities and only about 10% cash.”*

(Male Focus Group Participant, Accumulator SMSF Trustee)

Given many trustees are self-directed – and the research shows that even those using professional advisors often dictate the investment strategy – there is a need for advice and guidance from professionals around the role of fixed income in portfolios, and the legitimacy of using cash as a long term risk reduction strategy.

### Homeland security

One of the consequences of the focus on risk reduction has been that international equities managed funds have fallen out of favour with SMSF trustees.

This is most likely being driven by a broader desire to reduce their equities exposure.

International and domestic equities remain the two most popular asset classes for which managed funds are used, and allocations to both types of managed funds have fallen year-on-year.

The proportion of international equities allocations invested via managed funds has reduced to an average of 29.9% in 2011, down from 42.1% in 2010.

Likewise, the proportion of domestic equities invested in managed funds has dropped, albeit by a smaller margin, to 28.6% from 33.0%.

Overall, some 71.5% of advisors say they are using managed funds to invest SMSF clients’ assets in 2011, compared to 77.9% last year.

Those trustees that are using managed funds are using them selectively, seeking out managers that they perceive to be highly skilled.

*“There [are] a small number of fund managers who really care about what they do and are competent in what they do.”*

(Male Focus Group Participant, Retiree SMSF Trustee)

Reflecting their psychographic profiles, trustee coach seekers (43.1%) and outsourcers (42.1%) are more likely than trustee controllers (33.6%) to have invested in managed funds.

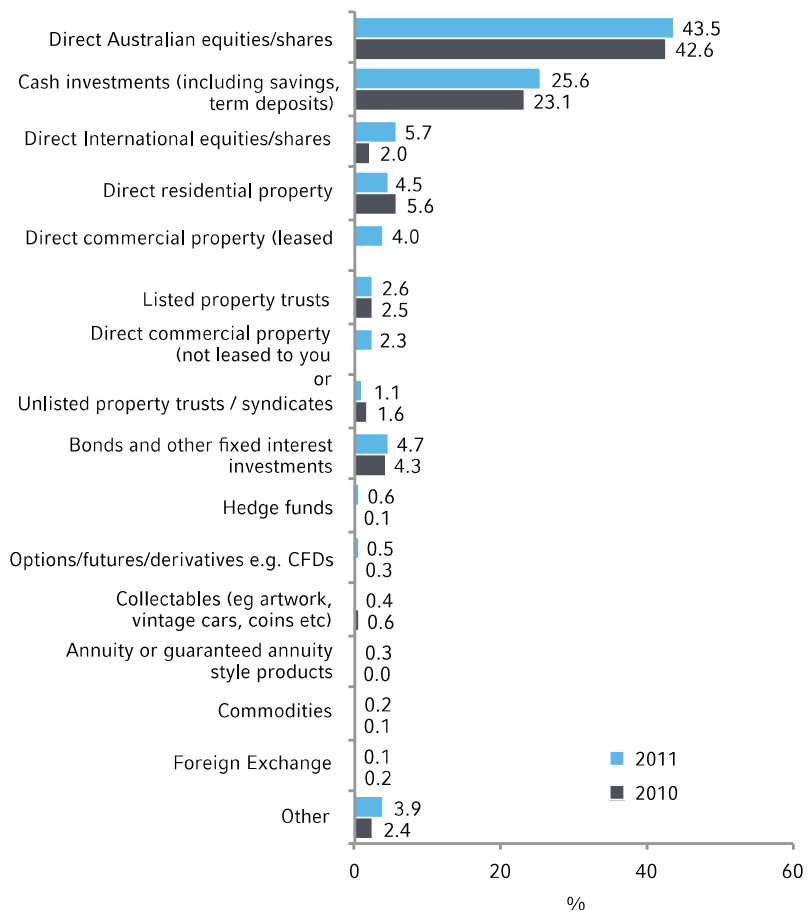
While the take-up of exchange-traded funds (ETFs) by trustees remains low, coach seekers and outsourcers appear to be more likely candidates for using these vehicles, with three in five controllers (61.8%) saying they have not invested in an ETF because they want to choose their own direct shares. Only two in five coach seeker trustees (39.3%) and one in four outsourcer trustees (25.0%) list this as a reason.

The home bias remains evident in trustee asset allocations. On average, 43.5% of trustee SMSF assets are invested in direct Australian equities, on par with last year (42.6%), while only 5.7% is invested in direct international shares.

One quarter (25.6%) is sitting in cash investments, including savings and term deposits, compared to 23.1% in 2010. Some 14.5% is in property – direct residential (4.5%), direct commercial (6.3%), listed property trusts (2.6%) and unlisted property trusts/syndicates (1.1%).

**Figure 5 – Please indicate roughly how you have allocated your SMSF assets between the following areas 2011 vs 2010**

*n = 337 (2011) , 431 (2010), respondents who have SMSF*



Asset allocation in 2011, according to advisors, is being driven predominantly by client risk profile (67.3%) and strategic planning for the client (61.0%).

However the third biggest driver is client preferences (55.6%), with life stage playing a similarly important part (52.2%).

So strong is the focus on risk reduction that cost (34.1% vs. 41.2%) and return (32.4% vs. 37.3%) have become much lesser drivers of allocation this year compared to last year.

This is further borne out in the findings that fees and returns have become lesser drivers of SMSF establishment in 2011.

This year, only one quarter of trustees said they set up their SMSF because other types of super funds charge too much (24.9% vs. 36.2%), while only one fifth (21.7%) think they can get better returns themselves, down from 31.8% in 2010.

It is control, not cost, that is the primary establishment driver for SMSF trustees.

However, controller trustees are much more fee-sensitive than coach seekers and outsourcers.

More than one third of controllers (34.4%) set up their SMSF because they believe other funds charge too much, compared to only 22.4% of coach seekers and 5.3% of outsourcers.

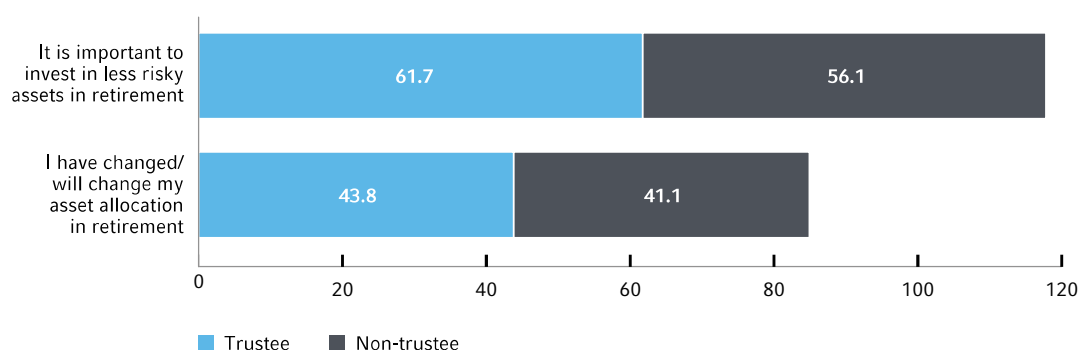
### Allocation in retirement

There remains works to be done around educating trustees about the need to adjust their asset allocation in retirement.

One of the key concerns of the Government's Super System Review<sup>16</sup> was that the asset allocation of SMSF members in the pension phase was the same as those in the accumulation phase – however the need for liquidity of pension members is much greater.

**Figure 6** – When it comes to investing your superannuation, to what extent do you agree with the following statements?

*n = 269 (2011), respondents who are retired AND members of a super fund*



While 61.7% of retiree trustees and 56.1% of retiree APRA fund members agree that it is important to invest in less risky assets in retirement, only two in five (43.8%) say they have changed or will change their asset allocation in retirement.

Since the needs of retirees revolve around income requirements, rather than growth, being the focus during accumulation, there is an advice opportunity around the importance of income in retirement, and the need to adjust asset allocations to ensure trustees meet their investment objectives and target income in retirement.

Once again, understanding and advising on the retirement needs of members of SMSFs is very different from ARPA fund members.

This is particularly important given one in five trustees are now in the transition to retirement (TTR) phase (20.5%) and almost one third are retired (31.5%).

The proportion that have moved into both the TTR and retirement phases increased marginally year-on-year, from 18.7% and 30.3% respectively, while the proportion in accumulation phase decreased to 48.0%, from 51.0% in 2010.

According to the Australian Bureau of Statistics (ABS), the number of pre- and post-retirees grew 1.1% over the five years to 2011, to represent some 31.8% of the population (7,199,823 people)<sup>17</sup>.

Russell Investments believes any balanced and well diversified portfolio needs an element of growth, but income as a source of return should not be overlooked<sup>18</sup>.

In negative return periods, dividends can provide a positive source of return that can minimise the impact of the negative return on the capital component.

Reflecting the importance of SMSFs, more than three quarter of those advising and/or administering SMSFs believe the SMSF structure is a 'very effective' vehicle for meeting clients' retirement needs (76.2%), up from 65.8% last year.

Only 5.3% believe SMSFs are an ineffective vehicle, slightly fewer than in 2010 (7.2%).

## Future Growth

*"We have a profile of clients we feel are ideal for these services. They tend to have higher net wealth, have been or remain engaged in professional careers (executives etc). We also like to assist those who have set up a fund in the past for a specific purpose i.e. business real property, and are now at or near retirement and to some extent need to restructure, refresh or reallocate their fund to meet next stage of life needs and increased compliance requirements."*

(Male financial advisor, 10 years in practice, Vic)

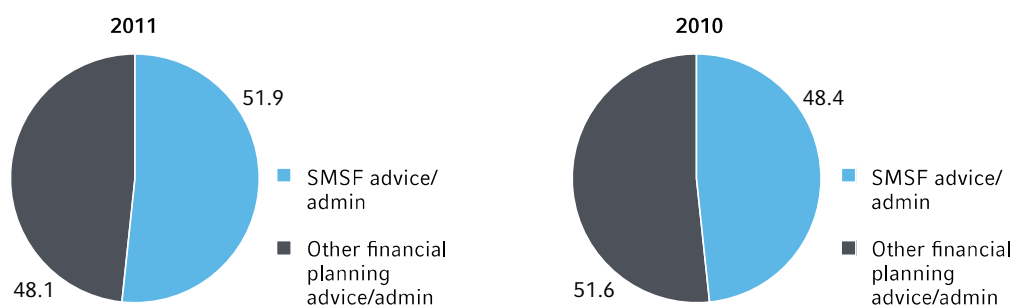
## General

For those advisors who are offering SMSF advice and/or administration to clients, SMSFs now make up a majority of assets under advice and administration, increasing to 51.9% from 48.4% last year.

As clients, SMSFs represent some 46.8% of revenue generated for advisors servicing this market, up from 40.4% in 2010.

**Figure 7** – What is the proportional asset value split between SMSF and non-SMSF advice/administration you provide?

*n = 443, respondents who advise and/or administer SMSFs*



<sup>17</sup> Australian Bureau of Statistics, Australian Demographic Statistics, June 2011 (released 19 Dec, 2011)

<sup>18</sup> 'Dividends are the new black', Russell Investments, February 2011



If advisor expectations ring true, the SMSF sector is poised for further growth over the coming 12 months, with three quarters of those advising the trustee market (75.1%) anticipating an increase in the number of SMSFs being established, including (23.9%) who expect a 'strong increase'.

Indeed, while only one in 10 people without an SMSF say they are likely to set one up within the next two to five years (10.9%), one in seven are likely to do so in more than five years' time (15.7%).

According to the research, independent financial advisors (IFAs) are commonly advising and/or administering a greater number of SMSFs than aligned advisors, with nearly half of aligned advisors overseeing 10 or fewer SMSFs (44.4%), compared to only 23.5% of IFAs.

Some 29.5% of IFAs oversee more than 50 SMSFs, while only 12.9% of aligned advisors oversee this proportion of SMSFs.

More than half of those servicing this market say they are targeting new types of SMSF clients at least to some extent.

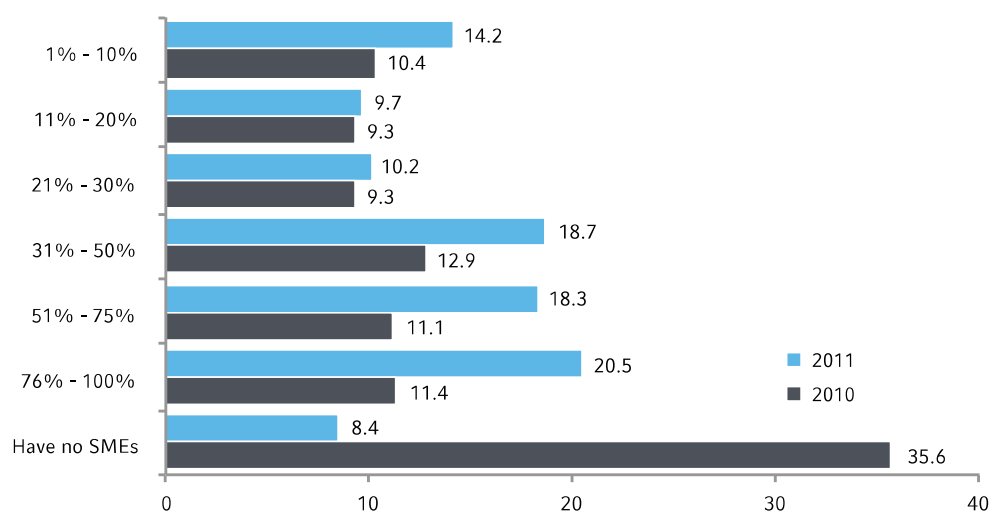
### SMEs

Many advisors say they are targeting small to medium enterprises (SMEs) as a means of growing their business, with this segment experiencing a surge in activity over the past 12 months.

This year, two in five advisors (38.8%) claim more than 50% of their client base are small to medium-sized business owners, up from just 22.5% last year.

**Figure 8** – Approximately what proportion of your SMSF clients have small to medium enterprises (SMEs)?

*n = 443 (2011), 396 (2010), respondents who advise and/or administer SMSFs*



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According to the ABS, there are around two million SMEs in Australia, including non-employed enterprises<sup>19</sup>.

The ABS defines a small business as one employing up to 20 employees, and a medium business as one employing between 21 and 199 employees.

Many advisors claim SMEs are the ideal candidate for an advised SMSF, as it allows them to expand the control they have over their business to control over their superannuation, yet pass on some of the responsibilities to a professional.

When asked which new types of SMSF clients they were targeting, SMEs was a common response.

*“SME owners who don’t otherwise think about their superannuation. These people generally are the ones that we have seen benefit the most from an SMSF and would not otherwise make super contributions for themselves.”*

(Female financial advisor, 10 years in practice, Qld)

*“Small business people who want control and advice, although don’t have the knowledge or the time.”*

(Male financial advisor, 7 years in practice, SA)

## Women

The opportunity for the professional advisor to tap into women as a market segment should not be underestimated.

The gap in both their perceived knowledge and understanding and confidence in achieving their desired income in retirement compared to their male counterparts, make females an ideal target segment for the professional advice industry.

Indeed, the sheer size of the market makes this a lucrative strategy. According to the Association of Superannuation Funds Australia (ASFA), in the financial year 2009-10 women held around 37.0% of total superannuation account balances, compared to 63.0% for men<sup>20</sup>.

The disparity between share of account balances has been improving over the years, from a Treasury-estimated share for women of 23.0% in 1994 and 30.0% in 2003-04, the ASFA report notes.

Although the female account balances have increased, the average retirement payouts in 2009-10 were around \$198,000 for men and only \$112,600 for women.

Good advice at an early lifestage could reduce the average female’s reliance on the Age Pension in retirement, and give them more confidence in planning for the future.

While only 16.1% of female respondents currently have an SMSF, women are an inevitable growth segment for the SMSF sector in the future.

## Regulatory hurdles

While the SMSF sector is poised for growth, success in tapping the opportunity presented to advisors and accountants hinges on the ability of the advice sector to navigate the raft of regulatory changes facing the broader superannuation sector.

The FoFA reforms are just one of many pieces of legislation set to reshape the environment for SMSF trustees and advisors alike.

In 2011, the Australian financial services reform agenda included an increase in the Superannuation Guarantee to 12%, the abolition of the age threshold for superannuation contributions, the extension of drawdown relief for account-based pensions to the 2012-13 year, with a 25% reduction in the minimum payment amounts for these products, and proposed rules around auditor independence.

These are all positive developments for the industry that are likely to aid continued growth, however, challenges remain for professional advisors and investors in complying with the magnitude of incoming changes, one of which includes the freezing of the indexation on the concessional contribution cap announced in the 2011 Mid Year Economic and Fiscal Outlook (MYEFO).

*“The [great challenge in advising SMSF clients] is the whole uncertainty of FOFA, Ripoll, Henry, etc. All the ridiculous amount of government meddling and uncertainty of constant reviews with bugger all benefit but confusion to super investors”*

(Male, 13 years in practice, NSW)

As part of the MYEFO, the Government said it would pause the indexation of the superannuation concessional contributions cap for one year in 2013-14, which will provide savings of \$485 million over the forward estimates. This will mean the annual concessional cap for those under 50 will remain at \$25,000 until 30 June 2014 (under indexation it would have risen to \$30,000 by 1 July, 2013).

The Government has said that it will work with the industry to clarify its position on the proposed new \$50,000 annual concessional cap for those over 50, with a balance of \$500,000 or less in super, due to take effect from 1 July, 2012.

SPAA and other superannuation bodies have previously called for Government’s proposed new \$500,000 super balance threshold for those aged 50+ (for eligibility to make concessional super contributions) to be scrapped and replaced by a flat uniform \$35,000 yearly concessional super cap for everyone aged over 50, regardless of their current super account balance.

## Capping growth

The annual value of member contributions to SMSFs were, on average, more than double that of SMSF employer contributions in the five years to June 2009. Contributions averaged \$32.5 billion a year (comprising \$23.6 billion from members and \$8.9 billion from employers)<sup>21</sup>.

Overall, for the five years to 30 June 2009, the proportion of member contributions to SMSFs, versus other types of funds, have generally trended upwards. However, the ATO report notes that more recent events and data from the 30 June 2010 year (which is not included in the report) indicates that the growth rate in member contributions in the superannuation sector has stalled and is now trending downwards.

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The finding suggests that the halving of the annual concessional cap from 2010 has had a negative impact on consumers' attempts to self-fund their retirement.

This year's research shows the impact of this restriction is at least \$12.4 billion less money in the super system over the 2010-11 financial year, a slight reduction on the previous year's estimated impact, likely due to the impact of the economic turmoil on people's willingness to invest and the high proportion of money being stored as cash in ADIs.

Around two in five SMSF trustees (41.9%) would have contributed extra (on top of the limits allowed) to their SMSF in the last financial year had the restriction not applied, compared to almost half of trustees in 2010 (48.4%).

Of those who would have contributed more, the average contribution would have been \$64,875, down from \$72,704 in 2010.

According to the ATO, there were 456,472 SMSFs<sup>22</sup> as at June, 2011.

Based on these figures, 191,262 funds would have made extra contributions to their SMSF, collectively contributing \$12,408,277,421 in extra concessional contributions in the 2010-11 financial year.

Not surprisingly, HNWI's have been most affected by the caps, although the mass and core affluent were also impacted.

One in five (21.7%) HNWI's would have contributed \$50,000 or more had the restrictions not applied, while one quarter (25.6%) would have contributed \$50,000 or less.

Slightly fewer core affluent trustees (17.0%) would have contributed \$50,000 or more, and 23.7% would have contributed \$50,000 or less.

Governments will need to consider the impact of the policy design for future Australian's adequacy and investment pools.

## Conclusion

*“If I knew how to do it properly and it would be of benefit to me, it would be silly not to maximise the benefits, right?”*

(Female non-trustee, aged 42, QLD)

There remain a number of barriers to SMSF establishment, in many cases merely perceptual barriers, that could nevertheless act as a throttle on growth if left unaddressed.

The industry has a key role to play in educating consumers about the various options available to them, allowing them to make informed decisions about the most appropriate vehicle for their retirement savings.

Lack of knowledge remains the number one barrier to establishment (35.1%), closely followed by the perception that the size of their assets does not justify having one (33.4%).

*“With the right help to learn how to do it and how to structure it [I would consider it].”*

(Female non-trustee, aged 46, NSW)

This perception of insufficient assets has increased year-on-year, up from 26.5% in 2010, likely due to the adverse impact of the markets on investment portfolios.

However interestingly, when the investment portfolios of those who said their assets did not justify having one are assessed, more than two in five core affluent respondents selected this option (45.4%), as did more than one third of HNWIIs (37.7%).

The core affluent are defined as those with between \$350,000 and \$750,000 in investable assets while HNWIIs are defined as those with more than \$750,000 in investable assets outside of their primary residence and superannuation, and/or those earning more than \$250,000 per annum.

Only one third of the mass affluent (between \$50,000 and \$350,000 in investable assets) and mass market (less than \$50,000) selected this option, a level at which having an SMSF may indeed make sense.

Around one quarter of those in the APRA fund sector perceive SMSFs to be ‘too much hassle’ (24.9%) or ‘too complicated’ (24.5%), while a further fifth (19.0%) say they do not have enough time to have an SMSF.

When asked hypothetically if they would consider setting up an SMSF if an advisor or accountant could take care of these issues or assist them in understanding what an SMSF was all about, 15.9% said yes, and more than half (53.5%) were unsure – implying they require more information about the benefits of professional advice before making that decision.

Late last year, SPAA sought to bust the ‘myth’ that SMSFs are being oversold by financial planners and accountants, and this year’s research provides further support for this argument.

Fewer than one in five trustees listed suggestions from either their accountant (16.6%) or financial planner (19.6%) as the reason for establishing their SMSF, revealing that these are not significant drivers of SMSF take up.

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The number one driver of establishment remains control over investments (67.1%), followed by control over the future (52.5%).

While the typical candidate for an SMSF is a controller by nature, as the sector shakes off its DIY label new segments are emerging that offer huge opportunity for the financial advice industry.

SMEs, women, coach seekers and younger demographics are ripe segments for an advised SMSF proposition provided advisors can clearly articulate the value they provide.

The findings of this year's research call for a new advice proposition which focuses on utility, leverages regulatory change to reach a broader cross-section of the trustee sector through scoped advice, and offers a more strategic approach to trustee investment portfolios.

Advisors that are able to close the expectation gap between what trustees want and what they are currently being offered will be sure to succeed in the new regulatory environment.



# Appendices

## Trustee research

Gender	
	Percent
Female	36.2
Male	63.8
Total	100.0

Age	
	Percent
21 - 30	4.4
31 - 40	11.5
41 - 50	22.8
51 - 60	28.8
Above 60	32.4
Total	100.0

Occupation	
	Percent
Professionals	38.4
Managers and administrators	27.2
Advanced clerical and service	7.3
Other	6.1
Intermediate clerical, sales and service workers	5.4
Associate professionals	4.6
Tradespersons and related workers	4.3
Labourers and related workers	2.2
Elementary clerical, sales and service workers	1.8
Homemaker	1.8
Intermediate production and transport workers	0.7
Total	100.0

Household Income	
	Percent
\$50,000 or less	18.5
\$50,001 to \$75,000	18.1
\$75,001 to \$100,000	15.8
\$100,001 to \$125,000	12.8
\$125,001 to \$150,000	11.7
\$150,001 to \$200,000	11.7
\$200,001 to \$250,000	5.9
\$250,001 to \$350,000	2.9
\$350,001 or more	2.6
Total	100.0

State/Territory	
	Percent
NSW	28.6
VIC	22.8
QLD	21.5
WA	11.7
SA	9.7
ACT	3.9
TAS	1.1
NT	0.6
Total	100.0

Area	
	Percent
The capital city of my state / territory	65.9
A regional centre	23.6
A rural area	10.5
Total	100.0

# Appendices

## Trustee research (Cont)

Employment	
	Percent
Self employed	13.4
Employed full time	45.1
Employed part time	11.4
Engaged mainly in home duties	2.4
Retired	22.6
Not employed at present	2.6
Student	0.5
Other	2.1
Total	100.0

Education	
	Percent
Primary	0.2
Part of high school	7.8
Completed high school	12.7
Diploma or certificate qualification (inc Trades)	27.8
Degree qualification	24.5
Postgraduate qualification	27.0
Total	100.0

Marital Status	
	Percent
Single	12.0
Living with partner/married	75.7
Separated/divorced/widowed	11.5
Other	0.8
Total	100.0

Investment Portfolio	
	Percent
I have no investments	6.3
\$50,000 or less	9.1
\$50,001 to \$150,000	14.0
\$150,001 to \$250,000	10.2
\$250,001 to \$350,000	8.5
\$350,001 to \$450,000	8.8
\$450,001 to \$550,000	6.3
\$550,001 to \$650,000	3.9
\$650,001 to \$750,000	3.6
\$750,001 to \$1 million	9.9
More than \$1 million to \$3 million	15.4
More than \$3 million to \$5 million	2.7
More than \$5 million	1.3
Total	100.0

Trustee vs. Non-trustee	
	Percent
Trustee	24.0
Non-trustee	76.0
Total	100.0

## Advisor research

Gender	
	Percent
Female	20.2
Male	79.8
Total	100.0

State (Practice)	
	Percent
NSW	29.8
VIC	30.0
QLD	18.7
WA	9.1
SA	8.7
ACT	2.2
TAS	0.7
NT	0.8
Total	100.0

Years as Advisor	
	Percent
10 years and below	42.2
11 to 20 years	39.6
21 to 30 years	14.2
More than 30 years	4.0
Total	100.0

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# CORE|DATA

CoreData is a Sydney-based market research and consultancy firm, specialising in financial services research. Founded in 2002 to bridge the gap between high-quality market intelligence and insight, the group provides research and consulting solutions to financial services companies in Australia, China and the United Kingdom.

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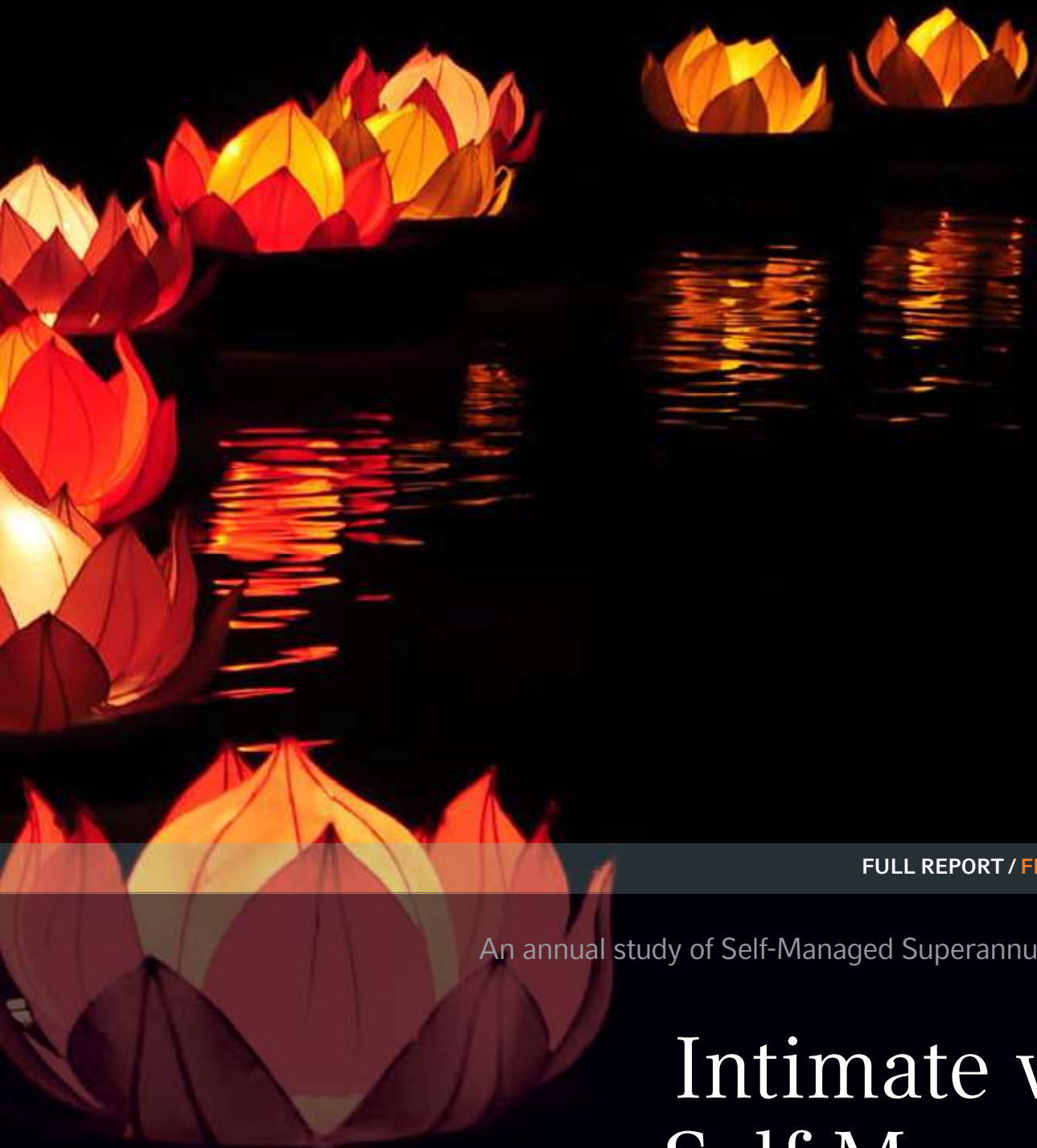
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SMSF  
Professionals'  
Association  
of Australia

A research study issued by  
SPAA and Russell Investments



FULL REPORT / FEBRUARY 2013

An annual study of Self-Managed Superannuation Funds

# Intimate with Self-Managed Superannuation



SMSF  
Professionals'  
Association  
of Australia

## Welcome to the third annual 'Intimate with Self-Managed Superannuation' report

*The SMSF industry has gone from strength to strength over the last decade with total assets held in SMSF structures now exceeding 450 billion dollars.<sup>1</sup>*

*2012 witnessed significant regulatory and market change. However despite the tough conditions the growth story continues for SMSFs. Indeed there are many new opportunities with growing demand for specialist advice and increasing younger markets.*

*It is with this backdrop we present the third annual Intimate With Self-Managed Superannuation report.*

*The report was commissioned by Russell Investments in conjunction with the SMSF Professionals' Association of Australia and produced by leading market research consultancy CoreData, providing the pre-eminent quantitative analysis of Australia's growing SMSF market. It is the culmination of research conducted among Australian SMSF trustees, financial advisors and accountants, and provides an insight into Australia's fastest growing superannuation sector.*

*This research puts the characteristics and behaviours of the SMSF trustee under the microscope, delving into the mindset of the "coach seeker", "controller" and "outsourcer". The report provides year-on-year trends around their needs, financial knowledge, asset allocation, risk mitigation strategies, and reliance on professional advice. The findings capture the trustees current perceptions of advice sources and market conditions.*

*The 2013 report highlights the increasing demand for specialist expertise, requiring advisor up-skilling and improved communications to create a strong value proposition for savvy trustees. Intimate With Self-Managed Superannuation is the benchmark for the changing and evolving SMSF sector. We hope you find the report insightful, and we welcome your feedback on future research areas.*

**Alan Schoenheimer**

*Chief Executive Officer – Asia Pacific  
Russell Investments*

**Andrea Slattery**

*Chief Executive Officer  
SPAA*

<sup>1</sup> Australian Tax Office SMSF report October 2012

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### **Russell Investments**

Russell Investments (Russell) is a global asset manager with core capabilities that extend across portfolio construction, capital markets research, manager research, indexes, and portfolio implementation. Russell combines this expertise to develop innovative solutions that meet the unique needs of Australian institutional investors, financial advisors and individuals. Russell works toward improving financial security for people every day, by helping investors of all sizes make better decisions using the best thinking from around the world.

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### **SMSF Professionals' Association of Australia Limited ("SPAA")**

SPAA represents professional advisors who provide advice in the highly complex area of self-managed super funds. The association's core focus is to raise the standard of advice provided by all professionals within the SMSF Industry and it is committed to promoting a high standard of education among SMSF professionals and assisting them to work within the regulatory framework.

[www.spaa.asn.au](http://www.spaa.asn.au)

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# Snapshot

## Opportunities for growth

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### Advice and education

For those that don't have an SMSF, 36.9% cite a lack of knowledge about SMSFs and 35.1% cite not having sufficient assets as key reasons for not having one – both up marginally from 2011 (35.1% and 33.4% respectively). However, encouragingly for the professional advice industry, 26.2% of those without an SMSF (up from 15.9% in 2011) would consider establishing an SMSF if a financial planner or accountant were able to address their concerns about SMSFs and were able to explain how having one may benefit them.

### Professional referrals

A large majority (82.8%) of financial advisors cite client referrals as their main source of new SMSF clients. However, professional referrals have become increasingly important, with 75.3% saying that they source SMSF clients in this way, up from 65.5% in 2011 and 61.7% in 2010. Professional referrals come from external accountants (43.2%), in-house accountants (21.5%) and mortgage brokers (10.5%).

### Insurance advice an opportunity

Financial planners are well placed to capitalise on trustee interest in areas of advice such as insurance and gearing, particularly given the Stronger Super measures which introduced a requirement for SMSF trustees to consider insurance cover for members of the fund as part of their investment strategy. Close to half (46.2%) of trustees say they considered insurance cover for one or more members of their SMSF when formulating their SMSF investment strategy, while 23.8% say that their planner considered this on their behalf and then advised them.

### Trustees seek specialist advice, advisers must upskill

More and more trustees are looking for specialist advice around their SMSFs, as opposed to seeking out a one-stop-shop solution. There will always be a need for professionals that offer the full spectrum of SMSF services, with 43.7% expressing a preference for a professional services relationship that covers all their needs. The use of financial planners as the primary source of advice for trustees remains steady, with 54.3% of trustees using an IFA, aligned financial planner or specialist SMSF adviser compared to 55.5% who did so last year. However, many trustees prefer to have multiple relationships with financial advisors, such as an accountant, planner and stockbroker. Trustees are turning to advice specialists in those areas where they need assistance the most, such as tax (45.1%) and compliance (42.7%). Financial planners need to upskill via further education to capitalise on the trend towards specialist advice.

### Untapped younger market

The majority of financial advisors continue to expect growth in the SMSF sector, with some 70.1% saying that the number of SMSFs being established will increase in the next 12 months, compared to 75.1% in 2011 and 70.6% in 2010. In particular, growth in the past two years has been noticeable in the younger demographic, with three in five financial advisors citing increased demand from 31 – 40 year olds, which is broadly in line with a move among the emerging high net wealth individuals to set up SMSFs. The establishment drivers among this younger demographic remain broadly the same as the drivers for older trustees – control and flexibility.

## Ongoing education

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### What is a financial advisor?

A lack of understanding about the role of financial planners, fees charged and what services they are able to provide continues to drive misconceptions about the role that planners play in providing financial advice. The term 'financial advisor' appears to have a different meaning to different clients and according to some trustees can include accountants, stock brokers and others. The term 'financial planner' is perceived to have a very different meaning to financial advisor and has negative connotations among controller trustees driven by poor past experiences, general perceptions around commissions and alignment with large organisations. This is an interesting challenge, given the move by Government to enshrine the term "financial planner/adviser". While enshrining the term may protect consumers from those who do not hold qualifications to provide advice, it will not address confusion over the terms. These negative perceptions among consumers need to be resolved given the top three factors considered when seeking a financial advisor among trustees are rapport, business reputation and independence.

### Fee-for-service front and centre

Lack of transparency around fees charged by financial planners is a common driver of negative perceptions among SMSF trustees that are unadvised, suggesting an opportunity for planners and professional bodies to educate the trustee sector about the Future of Financial Advice (FoFA) reforms and the shift to fee-for-service. In fact, most of those who are advising SMSF trustees are already charging on a fee-for-service basis. In 2012, 70.2% of planners say they haven't advised trustees about changes to fee for advice because their fee structures will not be affected.

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## Understanding trustee investment behaviour

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### Trustees continue to drive investment decisions

The majority of trustees (58.8%) claim that they have strong or very strong knowledge of investments, which ultimately reflects how they make investment decisions. The majority (61.6%) use their own research process, down from 70.1% in 2011. Some 30.0% of trustees rely on financial planners to derive their investment strategy, down from 40.1% in 2011. However, use of SMSF specialists for asset allocation decisions is up to 22.0% from 11.0% last year and 13.7% in 2010 further supporting the move towards specialisation.

Most advisors (81.0%) claim that SMSF investment strategies are directed by the client at least to some extent. This emphasises that financial advisors are not merely investment product advisors, but rather strategists that provide a broader range of benefits to clients.

### Cash still king, but trustees seek opportunities

2013 is likely to be characterised by asset migration, with financial services firms seeking growth not from net new money but from within the pool of existing cash that has noticeably increased over the last few years. In 2012, trustees allocated 33.9% of their SMSF investments to cash and term deposits, compared to only 25.6% in 2011. As identified in last year's report, cash and cash-like assets are considered by many trustees as a strategic asset placement and legitimate long-term asset class. However, substantial allocations to cash have helped de-risk trustee portfolios and could explain why this year the number one reason (45.7%) that trustees retain a greater than 10% allocation to cash is because they are waiting for a better investment option. Those who say it is to reduce risk dropped to 32.4% from close to half in 2011 (48.9%) and 2010 (47.6%). With declining interest rates, 57.7% of trustees are likely to look at alternative investments to cash to produce returns, with Australian equities the asset class most likely to be considered among 63.1% of trustees.

### Traditional asset allocation methods viewed as inflexible

Traditional asset allocation methods, which generally involve an assessment of risk tolerance followed by placement of the client into a standard asset allocation based on that tolerance, are seen by some trustees as an attempt to lock them into inflexible approaches and take control of their entire financial position. Financial planners are best placed to educate trustees about the more recent adaptive asset allocation approaches employed by many funds – allowing them to readily adapt to changes in the investment environment and client circumstances. It's also worth pointing out the benefits of investing in multiple asset classes, and the most appropriate way to invest in international equities. On average trustees have an allocation of only 6.0% to international equities, and are not accessing the expansive investment universe on offer through exchange-traded-funds (ETFs) or managed funds. However in order to provide this advice, financial planners may need to start broadening their advice services and familiarity with international investment opportunities if they are genuinely wanting to provide a strategic offer to SMSF trustees.

### Trustees prefer to purchase assets directly

Reflecting a greater appetite for transparency and control, 77.8% of trustees buy assets directly (shares, term deposits and property) for their SMSF portfolios, while only 24.9% use managed funds. Supporting this trend, the recommendation of managed funds by planners is down to 65.6%, from 71.5% in 2011 and 77.9% in 2010.



## The road ahead

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### Regulatory changes limiting further investment in super

The reduction in concessional contributions caps has substantially altered the way in which superannuants save for retirement. More than half (53.4%) of trustees say they will use a different strategy to save for retirement as a result of these changes, with 74.6% of these saying that they will invest their savings outside of superannuation. On average, trustees would have invested an extra \$53,409 each in financial year 2011/12 if contribution restrictions had not applied. This equates to a total of \$16.8 billion that the super system could have failed to capture from SMSFs in 2012.

### Trustees reasonably confident of meeting retirement objectives

Overall the confidence levels of SMSF trustees in meeting their retirement objectives remain largely unchanged, with 63.5% saying they are at least reasonably confident that they are on track to achieve their retirement goals compared to 65.7% in 2011. Close to one quarter (22.9%) are very confident that they are on target. However, confidence in meeting retirement objectives still lags levels reached in 2010, when 34.1% were very confident. Far fewer non-trustees are confident about meeting their retirement targets, with 43.1% saying they will fall short, compared to 28.6% of SMSF trustees.

Three quarters (77.7%) of planners believe that increasing the preservation age from 55 to 65 would make their clients more likely to remain in the workforce. This illustrates that having access to superannuation savings is an important factor for clients when deciding when to retire.

### Accountant licensing not a concern to planners

One area of regulatory change not expected to impact financial planner businesses as much is the introduction of a limited accounting licence. More than half of financial planners (53.8%) do not expect the introduction of the new licensing regime to impact their business, claiming that the services they provide are much broader than those offered by accountants. However, accountants are clearly looking to compete with planners in the advice space, with 47.1% of those surveyed expecting to obtain a limited licence to provide strategic advice and 6.9% expecting to obtain a full licence and become authorised to provide full financial advice.

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## Methodology

The third annual Intimate with Self-Managed Superannuation research report is sourced from a collection of quantitative and qualitative data gathered from SMSF trustees and professional advisors between September and November 2012.

Two online surveys were developed and hosted by CoreData following liaison with SPAA and Russell Investments.

### SMSF trustee research

#### Online survey

The trustee survey was conducted from 17th September through to 7th October, the primary target being SMSF trustees. Data was also collected from members of other super funds (excluding SMSFs) and high net worth individuals (HNWIs) without SMSFs to compare and contrast the views of trustees against Australian Prudential Regulation Authority (APRA) regulated fund members.

Respondents were sourced from CoreData's proprietary panel of more than 130,000 Australian consumers and SPAA's member network.

A total of 1,555 Australian consumers were surveyed, which included 437 SMSF trustees and 224 HNWIs without SMSFs.

#### Focus group

A focus group among six SMSF trustees was held on the 19th November in the Sydney CBD. The session ran for one and a half hours and was used to develop a deeper understanding of SMSF trustee behaviour and their future intentions.

### SMSF advisor research

#### Advisor survey

The advisor survey was conducted from 17th September through to 21st October and targeted professional advisors that provide advice and administration solutions for SMSF clients.

Respondents were sourced from CoreData's proprietary panel of Australian financial advisors and the SPAA member network and included primarily financial planners, accountants and practice principals, as well as a small number of paraplanners, auditors and lawyers.

A total of 506 responses were recorded for this component of the research.

#### Definitions of terms used in this report:

**Financial advisor** – When we use the term financial advisor, we are using this as an all-encompassing term for professionals providing advice and/or administration services to the SMSF sector. This includes: accountants, stock brokers, financial planners, lawyers, auditors, paraplanners and administrators.

**Financial planner** – The term financial planner refers specifically to those who classify themselves as one of the following: financial planner, risk adviser or practice principal.

**Trustees** – respondents that are members of a self-managed super fund (SMSF).

**Non-trustees** – respondents that are members of APRA regulated superannuation funds.

# Detailed findings

## Opportunities for growth

### General

Business growth is the key goal in the minds of those operating in the financial services industry – and this is no mean feat in the current economic climate.

Businesses servicing SMSF trustees are well placed to achieve growth, given they are providing advice and administration to the fastest growing segment of the superannuation sector.

According to the Australian Tax Office's (ATO's) September 2012 report, the total (net) number of SMSFs grew by 7.9% to 478,263 over the last year, ahead of the five year per annum growth rate of 6.4%. In addition, the number of SMSFs that wound up over the same period declined by 80% to only 994. This is the lowest number of SMSF wind ups since 2004.

But a key challenge in achieving business growth is the fact that more and more trustees are looking for specialist advice around their SMSFs, as opposed to seeking out a one-stop-shop solution, which might have been a traditional financial planner.

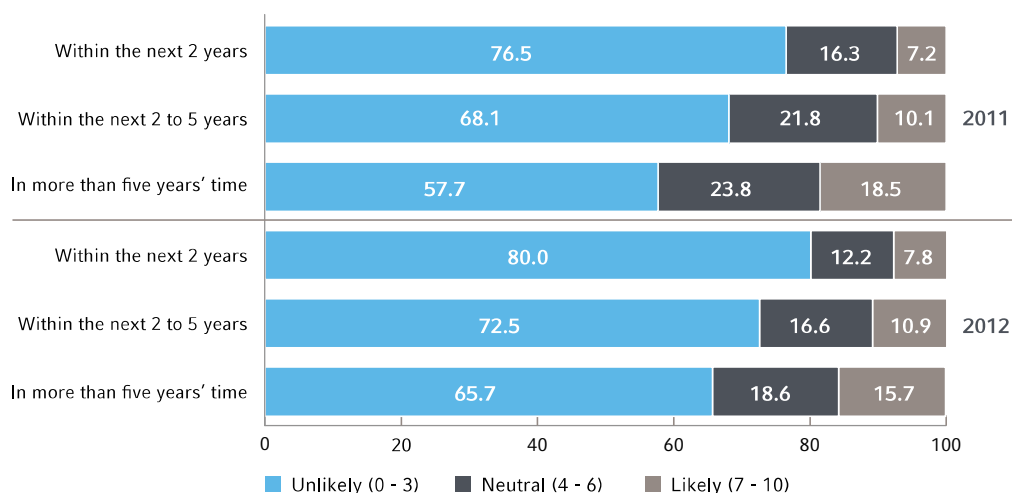
Financial planners that want to achieve growth in 2013 in this market and beyond will have to specialise in order to position themselves as experts in the SMSF sector, or partner with and outsource, specific areas that give them the flexibility to focus on their core business offer to trustees.

In this sense, financial planners, accountants and others interested in capturing SMSF growth need to think about what their business can offer, redefine their value proposition and determine areas in which they are well placed to provide specialist advice, allowing them to effectively target their ideal trustee client.

### SMSF advice and education key to further SMSF growth

With their popularity, increased awareness and continued growth of SMSFs, the intent to establish SMSFs in the future remains strong. While the proportion looking to establish an SMSF in the next two to five years has dropped off slightly, the intention still remains high over the longer term as shown in Figure 1, with 18.6% of non-trustees likely to set one up in more than five years' time,

Figure 1 – How likely are you to consider establishing an SMSF?



n = 1118 (2012), 1068 (2011), 994 (2010), respondents who do not have an SMSF

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compared to 15.7% who were likely to do so over the same timeframe in 2011. Some 7.2% intend to set up an SMSF within two years, on par with last year (7.8%).

For those that don't have an SMSF, 36.9% cite a lack of knowledge about SMSFs and 35.1% cite not having sufficient assets as key reasons for not having one – both up marginally from 2011 (35.1% and 33.4% respectively). About one quarter (26.7%) say they prefer the security and expertise of an Australian Prudential Regulation Authority (APRA) super fund to take care of their retirement wealth, although this has declined from 30.0% last year. A further quarter say SMSFs are too complicated (23.6% vs. 24.5%) or too much hassle (23.3% vs. 24.9%). One fifth say they lack the necessary time (19.8% vs. 19.0%).

The inaugural Intimate with Self-Managed Superannuation report, published in February 2011, flagged the various behavioural profiles that exist within both the Australian population and the SMSF trustee sector.

'Controllers' make up around 20% of the Australian population, and some 30% of trustees in this year's research, and are defined as those who are interested in managing their money and like doing it themselves.

'Coach seekers' make up about 30% of the population and around half of trustees in the 2013 research; they would rather do things themselves but need information to support their decisions – or are looking for someone to help them.

The remaining segment are 'outsourcers', who make up 50% of the Australian population and 20% of trustees in this year's research. They would rather someone else manage their money and finances and typically

pass trust to third parties when it comes to financial decision-making. They are the least likely to have an SMSF, at only around one in seven trustees – largely due to the traditional perception of the SMSF as a 'do it yourself' option.

A greater proportion of coach seekers, relative to controllers and outsourcers, say that a lack of knowledge (42.3% vs. 24.7% and 38.6%) and not having sufficient assets (38.1% vs. 34.7% and 27.0%) are barriers to establishing an SMSF. For controllers, reasons that carry more weight compared to outsourcers and coach seekers for not establishing an SMSF are that they are too costly (22.0% vs. 5.1% and 14.1%) and concern over legislative changes (18.3% vs. 8.8% and 11.3%).

However, encouragingly for the professional advice industry, 26.2% of those without an SMSF would consider establishing an SMSF if a financial planner or accountant were able to address their concerns about SMSFs and were able to explain how having one may benefit them.

This represents a solid increase on 2011, when just 15.9% would have considered establishing an SMSF if an accountant or adviser could assist, suggesting that professional advice and education is a potential SMSF enabler.

Perception is everything, and in the SMSF space, accountants appear to be the most trusted source of advice for setting up an SMSF, by a small margin. More than one third of male (34.8%) and female (36.6%) non-trustees would be more likely seek out an accountant in order to set up an SMSF than a financial planner (26.5% and 33.8% respectively).

### Specialists vs. one-stop-shop

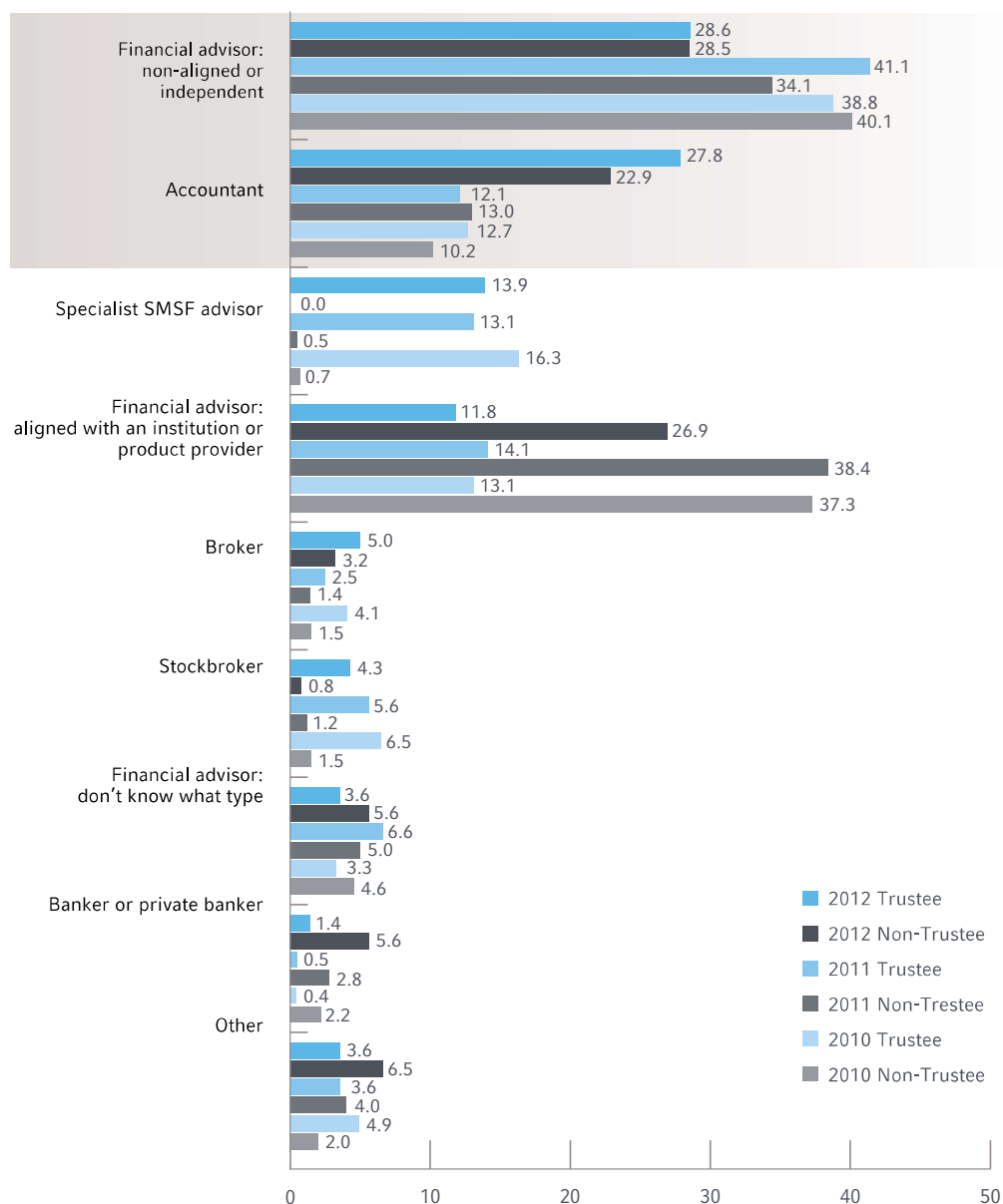
There will always be a need for professionals that offer the full spectrum of SMSF services, with 43.7% of trustees expressing a preference for a professional services relationship that covers all their needs. However, certain types of trustees are more likely to need an all-encompassing service. In the focus group held as part of this year's research, controllers, for example, expressed a greater desire for having multiple information sources in informing their decision-making process. They were more than happy to use an accountant, broker and other professionals rather than put all their trust in one relationship.

In terms of SMSF advice, trustees are likely to turn to advice specialists in those areas where they need assistance the most, 77.2% of trustees say they would turn to a professional or someone else for assistance and would be willing to pay for that service. Close to half (45.1%) of trustees are most likely to turn to accountants for compliance help, compared to only 15.1% that would turn to a financial planner for help in this area. Despite a substantial drop over the past year from 61.2%, tax remains the area where trustees need the most assistance in respect to managing SMSFs (45.1%). This is closely followed by 42.7% who cite compliance as an area where they need assistance. It is therefore no surprise that these are also the most valued areas of advice by trustees, as they relate to managing SMSFs. Three in five trustees say they value tax advice (60.4%) and compliance advice (60.0%) – the most of all the advice areas.

Once they have engaged one or more financial advisors, a partnership approach is most common with 68.6% of trustees either partly relying on or using a primary advice provider for high level ideas in conjunction with their own work or that of others, on par with the previous two years. This is similar for non-trustees, with 66.3% also using this partnership approach to advice, reflecting the increased control investors are seeking in a post-global financial crisis (GFC) world.

Accountants are also increasingly becoming the primary source for overall financial advice among SMSF trustees (see Figure 2a). Some 27.8% say accountants are their current primary source of advice, up from 22.9% in 2011. Trustees also cite accountants as their secondary source of advice above all other advice sources (see Figure 2b). The use of financial planners as a primary source of advice by trustees is on the decline, with only 40.4% of trustees using an independent financial adviser (IFA) or an aligned financial planner compared to 55.2% in 2011. A further 4.4% are unsure whether their planner is aligned or not, compared to 6.6% in 2011. Trustees are more likely to use an IFA (28.6%) than an aligned financial planner (11.8%), reflecting their preference for independent advice. Some 13.9% of trustees use a specialist SMSF adviser, on par with 2011 (13.1%).

**Figure 2a – Please nominate your current primary source of professional advice regarding money and financial matters?**



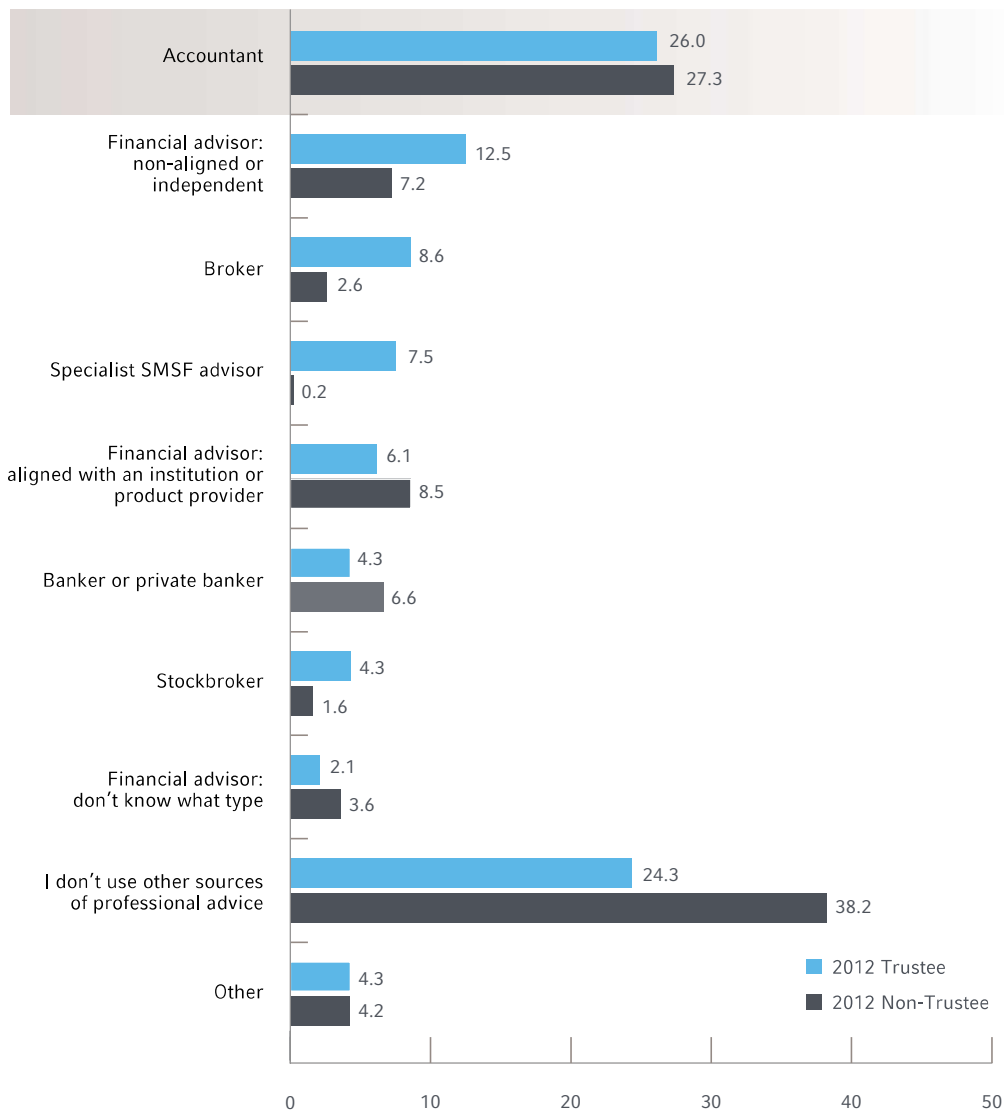
n = 782 (2012), 620 (2011), 686 (2010), respondents who use professional advice regarding money and financial matters.

While trustees are more likely to have a dedicated financial planner than non-trustees, only 32.3% say they have one in 2012, down from 42.1% in 2011. There are numerous reasons cited for not using a dedicated planner, however the most common barriers for both trustees and non-trustees are the

perceptions that planners push products for their own benefit (40.4% vs. 30.4% respectively) and that they simply do not need one (34.7% vs. 25.5% respectively).



**Figure 2b** – Please nominate your secondary source of professional advice regarding money and financial matters?



n = 782 (2012), respondents who use professional advice regarding money and financial matters.

There is also a strong perception among trustees that they can in fact do a better job than a planner themselves (32.4%). However, fewer trustees cite these as barriers in 2012 than in 2011. Controllers are far more likely than outsourcers and coach seekers to select these as barriers to using a dedicated planner.

### Untapped younger market

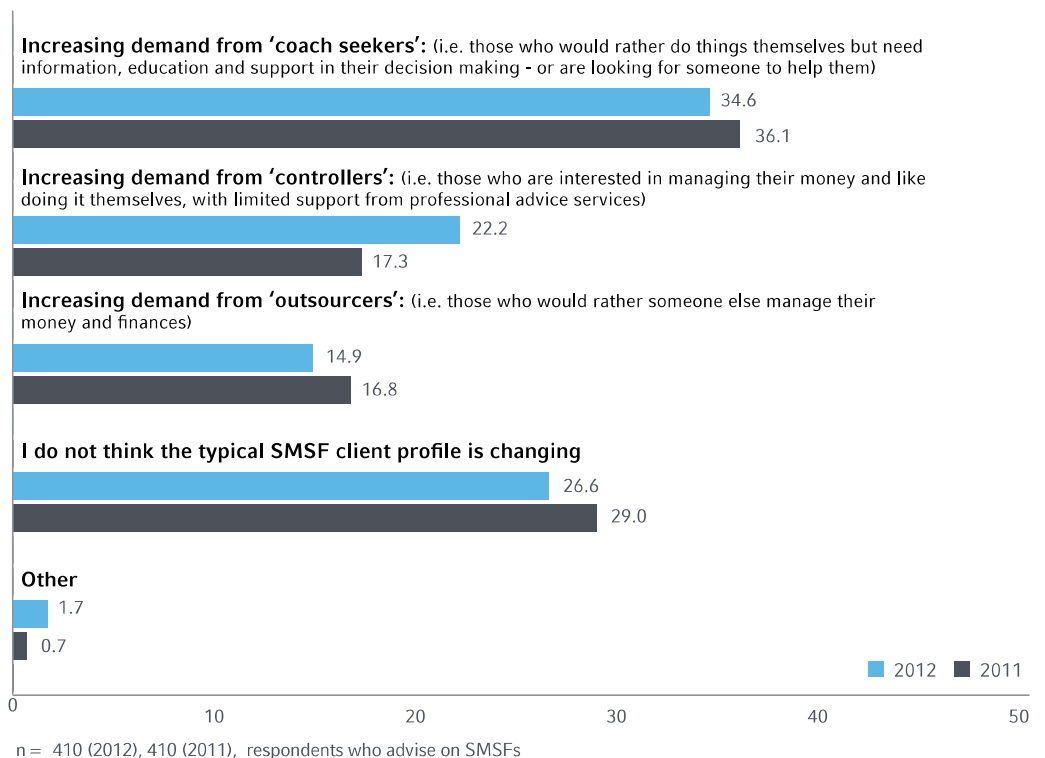
The majority of financial advisors continue to expect growth in the SMSF sector, with 70.1% saying that the number of SMSFs being established will increase in the next 12 months, compared to 75.1% in 2011 and 70.6% in 2010. In particular, growth in the past two years has been noticeable in the younger demographic, with three in five financial advisors citing increased demand from 31–40 year olds, which is broadly in line with a move among the emerging high net wealth individuals to set up SMSFs. The largest source of demand, however, remains those aged 41–50 (70.4%).

The establishment drivers among this younger demographic remain broadly the same as the drivers for older trustees – control and flexibility. According to the ATO, in 2011 members below 35 years of age represented almost 10% of SMSF establishments, however made up just 4.4% of the whole SMSF member population.

Around half of advisors' client bases are in the accumulation stage of their life (49.5%), comparable to previous years' research. While 17.4% are undergoing transition to retirement and 33.1% are retired. The split between male and female trustees remains in line with previous years, with males representing 57.5% of SMSF clients.

Taking a closer look at the behavioural profiles of SMSF trustees in Figure 3, we see that the highest increase in future demand is expected to come from coach seekers (34.6%), in line with 2011 (36.1%). However, 22.2% of advisors expect an increase in demand from controllers, up from only 17.3% in 2011 suggesting continued growth among the 'traditional' SMSF trustee segment of those seeking control and flexibility over the management of their super.

Figure 3 – How do you think the profile of the typical SMSF client is changing?



### Professional referrals key to growth

Although client referrals are still cited as the main source of new SMSF clients for those advising and/or administering SMSFs (82.8%), professional referrals are becoming increasingly important, rising to 75.3% who source SMSF clients this way from 65.5% in 2011 and 61.7% in 2010. Two in five (43.2%) of these referrals are coming from external accountants, followed by in-house accountants (21.5%) and mortgage brokers (10.5%).

Up-selling and cross-selling within an existing client base is also a key source of new clients for financial advisors, with 43.5% citing this method, up marginally from 41.1% last year and 41.0% in 2010.

Many advisors say they are targeting small to medium enterprises (SMEs) as a means of growing their business, with this segment experiencing a surge in activity over the past two years. This year, 28.8% of advisors claim 60% of their client base are small to medium-sized business owners, compared to 30.7% last year.

### Overcoming growth challenges

Despite the recognised growth in the SMSF sector by financial advisors and more broadly in the superannuation industry, there is less intent among advisors that do not currently service SMSFs to offer SMSF advice in the future. Only 20.3% of those that are not in the space intend to offer SMSF advice in the future, down from 25.5% in 2011 and 27.8% in 2010. Concurrently, 43.5% do not intend to offer SMSF advice in future, up from 33.3% in 2010.

With SMSF clients offering a proportionally greater source of revenue than non-SMSF clients, this presents a missed growth opportunity for these advisors. In 2012, trustee clients represented 33.4% of respondents' client base, but accounted for 38.0% of revenue.

The main barrier for not offering SMSF services cited is that it is not their area of expertise (33.3%), up from just 25.5% in 2011 and 25.0% in 2010, suggesting that further support and training could open the door to a whole new market for these financial advisors. Almost one quarter of advisors (23.2%) say they do not offer such services since they already have a referral arrangement in place for those clients that seek SMSF advice, up from 21.6% in 2011 and 13.9% in 2010. This again stresses the importance of referrals and how planners and accountants can not only co-exist but work together to achieve business growth.

IFAs are more likely than aligned planners to say they will offer SMSF advice in the future. About one third (35.7%) of IFAs are likely to offer SMSF services, compared to 22.6% of aligned planners. IFAs are also more likely to offer a wider range of SMSF services than aligned planners, across SMSF establishment, administration and tax advice. While 79.0% of those who advise on and/or administer SMSFs outsource legal services as they relate to SMSFs, up from 75.9% in 2011 and 77.3% in 2010, 63.7% outsource compliance including audit and about half outsource valuation (55.9%), tax advice (52.2%) and administration (51.2%). Two in five (42.2%) outsource the establishment of SMSFs, in line with 2011 (43.9%).

Regulations and compliance as they relate to administering SMSFs are the major challenges for many advisors, and remain the number one and two challenges for advising SMSF clients in 2012. Respondents were asked to rank the top five challenges they faced, and these were computed as an average ranking score out of 10. Regulations received an average ranking score of 5.7, while compliance received 4.8 out of 10. In fact, regulatory change has become an increasing challenge in 2012, up from 5.3 in 2011 and 5.1 in 2010. Although managing trustee responsibilities and obligations remains challenging (4.0),

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this is down from 4.3 in 2011 and 4.1 in 2010. This may suggest an improvement in the education of trustees around their role and responsibilities as the sector matures.

Given the recent economic environment and clients' heightened risk aversion, financial advisors continue to spend a lot of time advising on lower risk assets such as cash and term deposits, as well as direct equities. One quarter of advisors (25.6%) claim to construct unique portfolios for SMSF clients compared to other wrap or retail clients, while a further 40.0% say that they construct unique portfolios for every client, regardless of whether they are in a SMSF or not. While it's important to respond to the evolving needs and preferences of clients, advisors also need to work with clients to understand the outcome they desire in order to help clients reach this outcome through a total portfolio approach – an approach that involves investing in multiple asset classes.

A further growth inhibitor – and a risk in terms of losing existing SMSF clients – is the fact that client contact continues to decline. Financial advisors on average are only contacting a typical SMSF client either by phone or face to face, 8.2 times per year, compared to 9.3 times in 2010. Similarly, with performance reporting, advisors reported on trustees' investment returns 3.2 times per year in 2012 compared to 3.7 times in 2010. In times of volatility, clients want more contact – not less – from their financial advisors. Although too much contact can be resource intensive on the part of the advisor, finding the right balance is the key to keeping clients happy. Encouragingly, 34.1% of advisors are in direct contact with their typical SMSF client at least monthly, up from 31.6% in 2011 but down marginally from 36.6% in 2010.

## Ongoing education

### General

It is clear from both the quantitative and qualitative Intimate with Self-Managed Superannuation research that increasingly, SMSF clients are seeking specialist advice with regards to their fund. While many prefer to employ specialists in their area of expertise, there is a general perception, particularly among the controller segment, that financial planners don't provide specialist advice. In reality, financial planners can offer very specialised services and, contrary certainly to the views of focus group participants (most of whom could be classified as male controllers), can offer investment advice that is personalised, objective and not tied to product ratings and Approved Product Lists – particularly in a fee-for-service world.

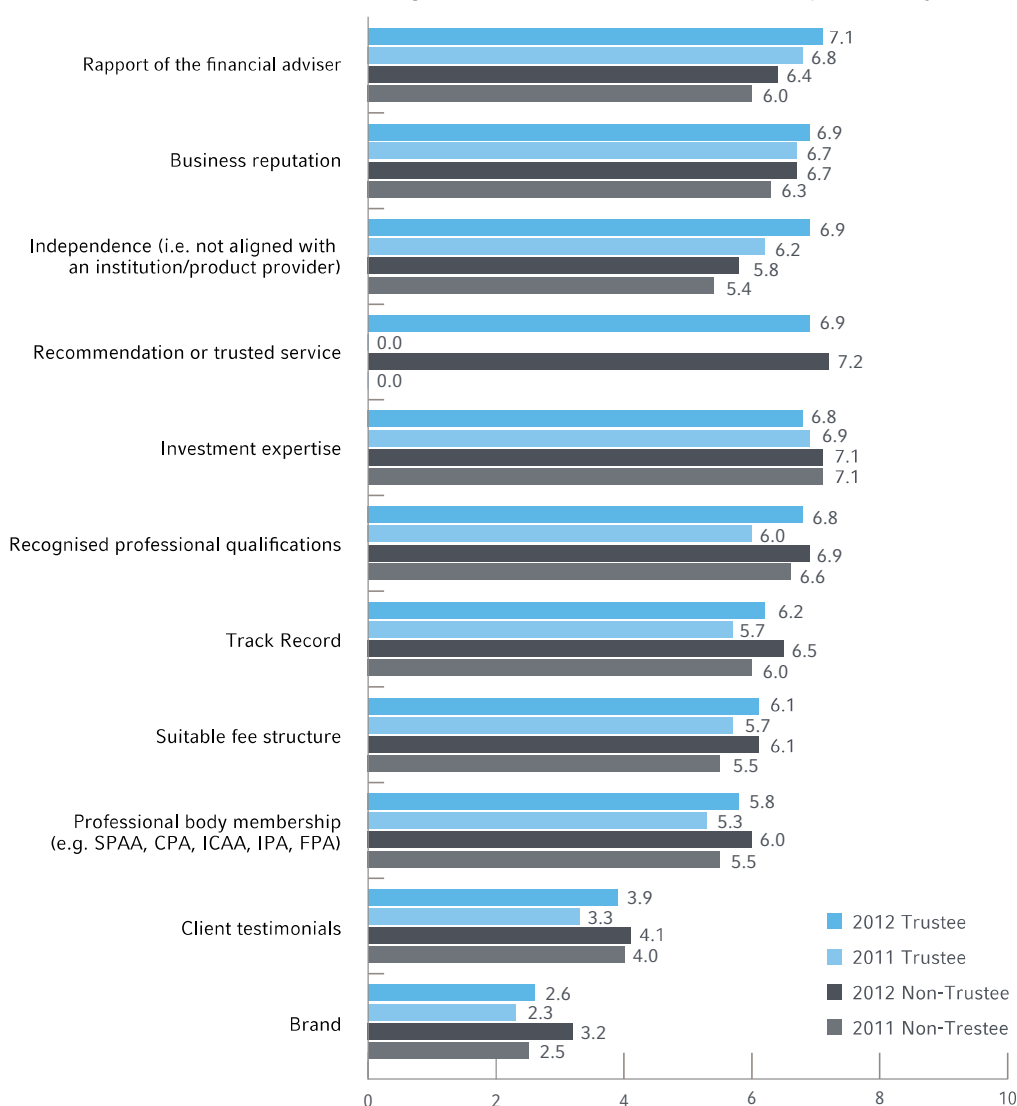
However, combating perceptions around mis-selling and the role of the financial planner, given the importance of client referrals as a source of business growth, is a challenge, especially if these become entrenched, as views on fees and commissions have become in the minds of many of the unadvised. As such, financial planners need to better engage with clients and prospects to not only educate and clearly communicate their customer value proposition and how this relates to fees but to be upfront and proactive in doing so. Many financial planners servicing SMSF trustees are already operating on a fee-for-service basis, yet this fact appears to be little known among many of the unadvised.

## Reputation on the line

A lack of understanding about the role of financial planners, fees charged and what services they are able to provide continues to drive misconceptions about the role that planners play in providing financial advice. Indeed, the term 'financial advisor' itself is a source of confusion, as for some trustees this encompasses accountants, stock brokers

and others in addition to financial planners. However, as the focus group research demonstrated, the term 'financial planner' appears to have negative connotations among controller trustees, driven by both poor experiences in dealing with planners in the past and general perceptions around commissions and alignment with large organisations.

**Figure 4** – What do you look for in your main professional advisor?  
Please rank the following characteristics, where 1 = most important to you?



n = 280 (2012), 198 (2011), 198 (2010), respondents who have an SMSF AND have a dedicated financial adviser and 502 (2012), 422 (2011), respondents who do not have SMSF AND have a dedicated financial adviser.

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*“Well, I think that the planner is one of these people who typically wants a cut of your action. He’s got no skin in the game... So, I went to one a year or so ago, and not just about my super, about other matters as well, and I’ve got a substantial income from investments – and she was proposing to charge me approximately 25% of that, which was a lot, and I thought ‘What exactly are you going to do for all that?’ because I couldn’t see what it was.”*

(Male Focus Group Participant, SMSF Trustee)

Factors such as reputation are important for planners to address if they are to change these perceptions and increase the number of SMSF trustees who consider using their services. For trustees, rapport, business reputation and independence (as illustrated in Figure 4) are the top three key factors considered when looking for a financial advisor, with an average ranking score of 7.1, 6.9 and 6.9 out of 10 respectively. The importance of these factors is similar for non-trustees when seeking a financial advisor. These factors and the influence of recommendations, or the perception that the advisor offers a trusted service, are all the more important considering that an overwhelming majority of advisors say that client referrals are the main source of SMSF client business, as discussed previously.

### **Fees up front**

Lack of transparency around fees charged by financial planners appears to be a common issue that drives negative perceptions among SMSF trustees that do not currently have a financial planner. This view persists among clients due to a lack of understanding about fee structures and for what services they are paying. While this perception will hopefully change as a result of the Future of Financial Advice (FoFA) reforms including fee disclosure and the ban on commissions for new clients from July 2013, the responsibility falls on financial planners to not only be transparent about the fees they are charging but to also educate clients so that they are aware of the utility of the offer and any legislative changes that may impact them.

In 2012, 70.2% of financial advisors say that they haven’t advised trustees about changes to fees for advice as a result of FoFA reforms, due to the fact that their fee structures will not be affected, suggesting that most advisors servicing the SMSF sector are already operating on a fee-for-service basis. One in five (21.5%) have advised clients that there will be a change in the way they pay for advice while 7.3% have not got around to it yet.

*“I found when we talked to advisors, last year and the year before... they all want to drive you towards certain products who they’re affiliated with and then wanted to take fairly large commissions to do it. So, after having talked to four of them, I decided to stay away from them.”*

(Male Focus Group Participant, SMSF Trustee)



Overall, current fee payment methods cited by trustees line up broadly with their preferred way of paying for advice, with 31.3% of trustees preferring flat fee structures, which is in line with 28.1% of trustees who say that this is in fact the current way in which they pay for professional advice. There does appear to be some disconnect, however, with the second most common method of fee payment, which is based on a percentage of assets under management charged by an advisor. This has increased to 22.8% of those that use this method, up from 14.6% in 2010 and stands in contrast to only 12.1% of trustees who say this is their preferred method of paying fees. This misalignment therefore presents an opportunity for financial advisors to better engage with clients on their preferred methods of paying for advice, as allowing some flexibility around this may help to increase transparency among current clients and heighten the appetite of the unadvised.

### Upskill or perish

*"I don't like someone who claims to be providing an overarching service that encompasses everything. I'm always wary of that. I'd rather deal with the accountant and deal with the lawyer and have them in their separate boxes."*

(Male Focus Group Participant, SMSF Trustee)

As demonstrated in the focus group research and discussed previously, some trustees believe that financial planners in general are only able to provide broader financial advice and/or push a product, particularly if they are an aligned financial planner. Rather, SMSF trustees have a preference for dealing with specialists such as accountants for tax and compliance matters, as they relate to SMSF advice and stock brokers for investment advice, namely stock picking. This is supported by the fact that both trustees and non-trustees prefer accountants

as set-up partners for SMSFs. Given that a self-confessed lack of SMSF expertise is a key barrier, perhaps this perception is not unwarranted? Maybe so, however this presents a clear upskilling opportunity for financial planners in order to leverage off the continued growth in SMSFs.

Professional bodies also need to promote the increased professionalism in the industry. Focus group participants expressed a negative view of financial planners' investment expertise and preference for shifting clients into homogenised products, in fact, the key drivers of financial advisors' asset allocation for SMSF clients are risk profile (70.5%) and strategic planning (65.4%).

*"I've been dealing a little bit with [a financial planner] in the last 12 months, and he offers a service of specialised SMSF advice. They do charge some fees, but I mean he doesn't advise on products, but on how to actually manage your super fund and what you can do in it and in fact, he's very enlightening on the law to do with SMSFs. The fact is it tells you what you can do but it doesn't tell you what you can't do, as he puts it."*

(Male Focus Group Participant, SMSF Trustee)

While the majority (61.6%) of trustees prefer to drive their investment process and tend to use brokers for stock specific advice, 14.0% value investment strategy information above all other information services. In the absence of appropriate and longer term asset allocation and overall investment strategy, financial planners have an important role to play in offering strategic investment advice that does not relate to products. This is particularly the case where clients have limited knowledge of the importance of diversification, and where investment strategies are limited to Australian equities and cash.

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Financial planners are also well placed to capitalise on trustee interest in areas of advice such as insurance and gearing. As part of the Stronger Super measures, the Government introduced a requirement for trustees of SMSFs to review the fund's investment strategy on a regular basis to ensure it reflects the changing circumstances of the fund and its members – and this includes considering insurance cover for members of the fund. Close to half (46.2%) of trustees say they considered insurance cover for one or more members of their SMSF when formulating their SMSF investment strategy, while 23.8% say that their planner considered this on their behalf and then advised them. This is encouraging given the importance of having adequate life insurance cover, and shows that broader education messages from the industry and sound advice from advisors is assisting in ensuring trustees are covered in the event of unforeseen circumstances.

In terms of gearing within their SMSF, 24.9% of trustees say they borrow to invest or plan to borrow to invest in their SMSF portfolio. Of these, 58.7% intend on using the new borrowing rules to purchase residential or commercial property via instalment warrants, in line with 2011 (57.1%) and 2010 (57.0%). Some 36.7% have already used the rules, either to purchase a residential or commercial property via an instalment warrant (20.2%) or to invest in shares/managed funds via an instalment warrant (16.5%). Given volatility in equity markets, the proportion that have used the rules to invest in shares/managed funds has declined from 20.0% in 2011 and 22.6% in 2010.

While close to half (48.0%) of financial advisors have advised trustees on the new borrowing rules to purchase a residential or commercial property in their SMSF via an instalment warrant, and despite the interest from trustees, only 6.8% intend to provide advice in this area in the future. This is a steady fall from 12.2% in 2011 and 15.7% in 2010. One third of planners (34.6%) have not advised in this area at all. IFAs are more likely

than aligned planners to have provided advice to clients in this area (48.1% vs. 39.9%), with fewer (33.8%) IFAs having never advised clients on the borrowing rules, in contrast to 42.1% of aligned planners.

## Understanding trustee investment behaviour

*"I take a view on where I think the economy, markets and exchange rates and those kinds of things are going, and I may be completely wrong, but you've got to take a view on these things and set the portfolio accordingly. You can be wrong for quite a long time, but, those guys can be wrong or I can be wrong. I'd rather make the decision and be wrong myself, and take responsibility."*

(Male Focus Group Participant, SMSF Trustee)

### General

While cash and term deposit rates continue to fall, SMSF trustees remain on the sidelines – for now – waiting for a catalyst to drive them into higher risk assets, namely equities. That hasn't occurred as yet, however the Reserve Bank of Australia's (RBA) decision to cut the official cash rate to 3% in December 2012 may provide some impetus and indeed, many trustees say they'll look at cash alternatives as a result.

2013 is likely to be characterised by asset migration, with financial services firms seeking growth not from net new money but from within the pool of existing cash that has noticeably increased over the last few years. This forms part of the broader "wall of cash" theme that we reported in last year's report and which continued to build throughout 2012, with total Australian Deposit-taking Institution (ADI) deposits substantially increasing to \$850 billion from \$580 billion, as at end November 2012 .

In the meantime, industry funds have been offering direct options (equities and term deposits) to stem the tide of members setting up SMSFs, to protect and foster industry fund membership and to aid growth.

A key challenge for advisors in the SMSF sector is to reposition themselves as able to offer a unique and personalised service for trustees, particularly when it comes to asset allocation. Many trustees lack confidence in the advice proposition.

'Controller' SMSF trustees that attended the focus group held as part of the 2013 research believed that financial planners were only useful for providing investment advice to people who lack the self-confidence to do it themselves. This suggests a need to educate trustees on the broader, strategic role of a financial planner and the FoFA reforms which are fundamentally shifting the industry away from commissions towards a fee-based approach.

### Cash still king, but trustees seek opportunities

*"We are taking less risks and leaving more money in cash than before because of the volatile stock market and property market."*

(Female, Trustee, 60, Vic)

Cash remains king. The large amount of cash still held on the sidelines by investors and the challenge for financial planners to move investors from cash to higher risk/return assets are all reflected in the allocation to cash by SMSF trustees. In 2012, trustees allocated 33.9% of their SMSF investments to cash and term deposits, compared to only 25.6% in 2011. Meanwhile, we have seen a shift out of Australian equities, with trustees saying that they on average have 37.1% allocated to Australian equities, down from 43.5% in 2011 and 42.6% in 2010. This demonstrates prevailing uncertainty and is reinforced by the 7% fall in Australian equities in the 2011/2012 financial year.

Non-trustees also increased their allocation to cash investments in 2012, but by a smaller proportion, to 21.8% from 17.0% in 2011. Other perceived safe havens, such as bonds, also benefited, with allocations rising to 10.2% from 2.6%. On the other hand, there was a noticeable shift towards equities over the past year for non-trustees, with the allocation to Australian equities rising to 34.7% from 30.0% in 2011, with exposure to international equities lifting to 17.7% from 13.1%. The 'Other' asset class (including commodities and private assets), though still a minor allocation overall, experienced a noticeable increase among trustees to 3.8% from 2.0% in 2011 and 0.7% in 2010.

The impact of the GFC, the European debt crisis, concerns over Chinese and Australian economic growth and the fiscal cliff in the US have all taken their toll on investor sentiment. As such, the wall of cash remains large.

However, the substantial allocations to cash have helped de-risk trustee portfolios, and could explain why the focus has shifted in 2012 from risk aversion to investment opportunity. As Figure 5 shows, the main reason cited by trustees that have more than 10% of their portfolio allocated to cash is no longer in order to reduce risk. In fact, this has dropped substantially to 32.4%, from 48.9% in 2011, when this was the main driver of cash holdings. In 2012, the number one reason (45.7%) that trustees retain a greater than 10% allocation to cash is because they are waiting for a better investment option.

Further supporting this, only 21.8% of trustees say it is because equities are too volatile, a reduction of more than 10 percentage points from 32.4% in 2011 and in line with 2010 (17.0%). A minority (13.8%) say that they are holding more than 10% in cash because they want a guaranteed income stream, down from 18.2% in 2011 and 23.1% in 2010. Only 14.9% say it is because cash can deliver better returns, down from 20.5% last year, reflecting the reduction in the cash rate over the past 12 months.

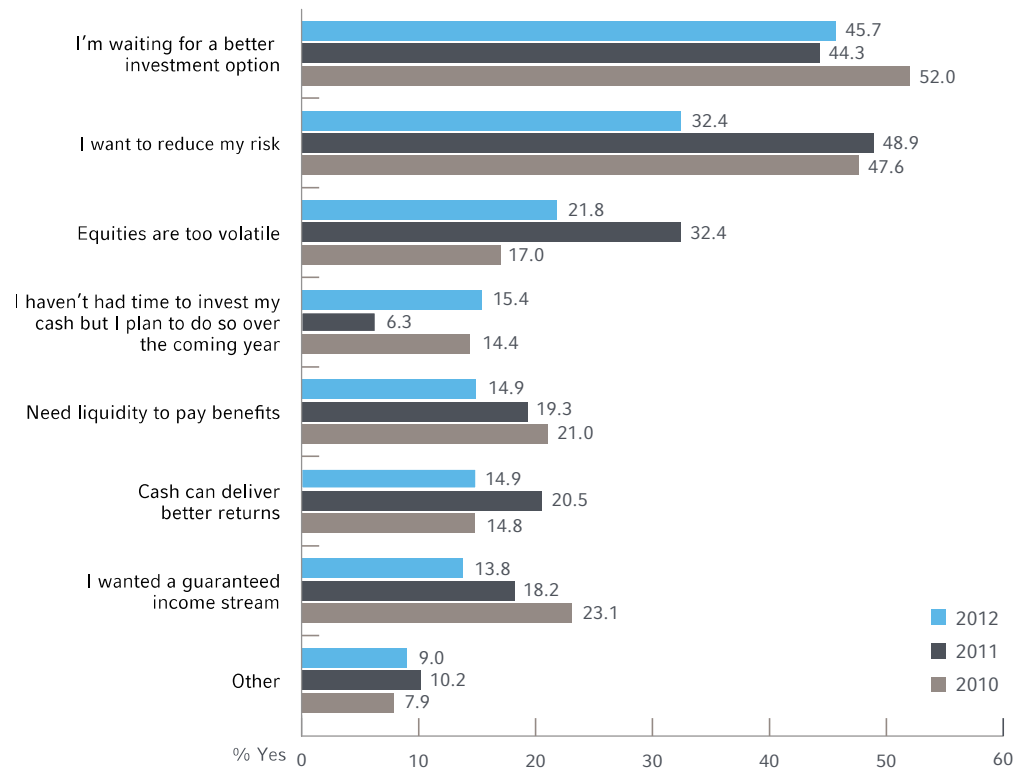
This sentiment may have improved further since the 16.4% rally by Australian equities in the six months ending 2012 and by global equities by close to 12.0% over the same period.

With declining interest rates, 57.7% of trustees are likely to look at alternative investments to cash to produce returns, with Australian equities the asset class most likely to be considered among 63.1% of trustees. However as identified in last year's report, cash and cash-like assets are considered by many trustees as a strategic asset placement and legitimate long-term asset class. One quarter will look at residential property (24.6%) and interestingly, 21.8% will consider term deposits, suggesting they

are only looking to move from at-call cash to longer term cash products. The majority of controllers (61.6%) are likely to look at Australian equities, compared to 50.1% of coach seekers and 37.3% of outsourcers, suggesting a higher level of risk appetite.

The overwhelming majority of trustees (94.7%) review their asset allocation at least on an annual basis, with 57.4% reviewing their asset allocation at least quarterly. While trustees' views don't in themselves indicate that a sudden shift out of cash is imminent, it is encouraging that after a number of years of being worn down by negative market returns, they are finally prepared to seek investment opportunities as they present themselves.

**Figure 5 – What is the reason for your current allocation to cash?**



Multiple answers allowed  
n = 188 (2012), 176 (2011), 270 (2010) respondents who have an SMSF AND who allocate at least 10% to cash.

## The investment decision

*“I think if you’re cluey enough to the investment markets, you don’t really need an advisor...”*

(Male Focus Group Participant, SMSF Trustee)

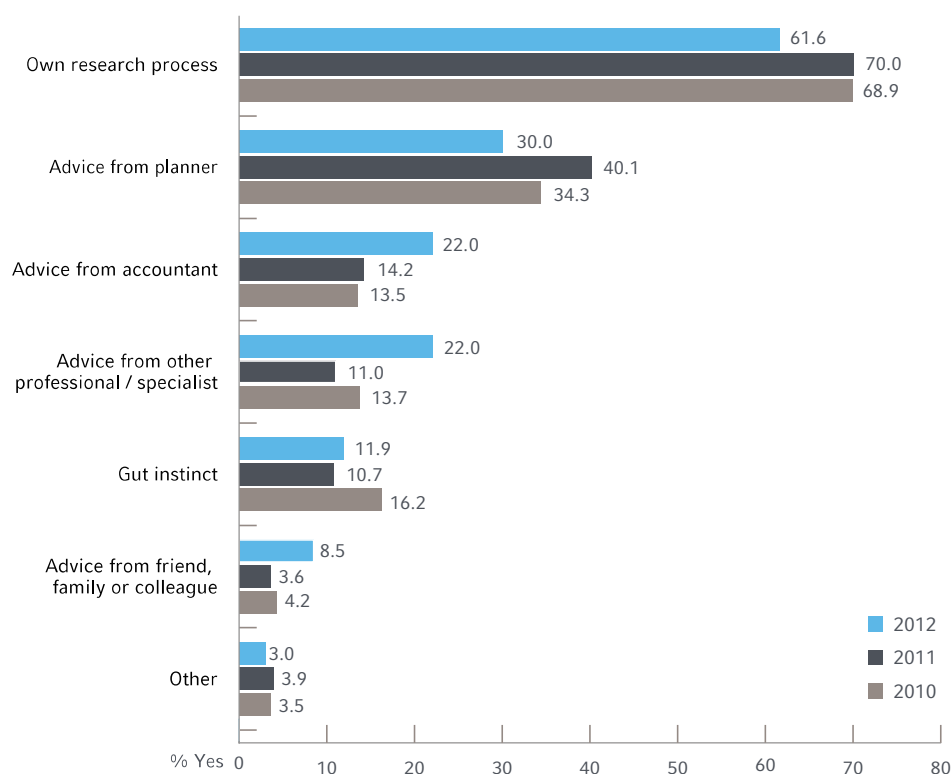
With trustees thinking about the next move for their SMSF investments, this provides a great opportunity for financial advisors to position themselves as the preferred channel for assisting this deployment and providing strategic advice.

However the type of assistance that most trustees are looking for is vastly different to the traditional holistic advice proposition. Three in five trustees (58.8%) claim that they have strong or very strong knowledge of investments, compared with 23.7% of non-trustees.

This is ultimately reflected in how they make investment decisions, as Figure 6 shows. The majority (61.6%) use their own research process and while this is down from 70.0% in 2011, it is nevertheless a substantial proportion of trustees that are heavily involved in the development of their asset allocation strategy.

As could be expected, 80.6% of controllers drive asset allocation decisions themselves, compared to 52.8% of coach seekers and 25.0% of outsourcers. Some 30.0% of trustees rely on financial advisors to derive their investment strategy, down from 40.1% in 2011 and 34.3% in 2010. However, usage of SMSF specialists for asset allocation and investment strategy is up to 22.0% from 11.0% last year and 13.7% in 2010, further supporting the move towards specialisation.

**Figure 6 – How did you derive your asset allocation and investment strategy for your SMSF?**



Multiple answers allowed  
n = 437 (2012), 337 (2011), 431 (2010) respondents who have an SMSF

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Outsourcers are by the far the most reliant (62.5%) on investment strategy advice from planners, with 33.6% of coach seekers and 18.8% of controllers using an advisors' advice in this area. This partly reflects the fact that many of the trustee respondents are unadvised; of those that have a financial advisor, 54.5% rely on advice from their financial planner when deriving their SMSF investment strategy and 47.8% rely on their own research, compared to 76.1% of those who are not advised.

The desire for control over investment decisions is also reflected in the fact that 55.1% of financial advisors say that client preferences drive their decision making around products and asset allocation for SMSF clients. Risk profile (70.5%) and strategic planning for the client (65.4%), however, are the main drivers of allocation cited by financial advisors – consistent with 2011 (67.3% and 61.0% respectively). In 2012, cost (32.2% vs. 34.1%), tax minimisation (24.4% vs. 30.0%) and approved product lists (23.4% vs. 28.3%) have become lesser drivers of asset allocation.

A majority of advisors (81.0%) claim that SMSF investment strategies are directed by the client, at least to some extent, in line with last year (80.5%). This reinforces the fact that trustees are much more likely to want a high-control relationship with their advisor, whereby they are able to use them more as a performance coach in a two-way relationship than to rely on them to tell them where to invest. This latter point emphasises that financial advisors are not merely investment product advisors, but rather strategists that provide a broader range of benefits to clients.

For accountants, the level of client input is slightly higher, with 84.0% saying that SMSF clients direct decisions to a large extent or almost entirely compared to 79.7% of financial planners.

The asset classes trustees are directing are typically those they are most familiar with, such as Australian shares, property and cash. Almost three quarters (72.3%) of financial advisors say that residential property investment decisions are directed by clients, while 66.6% say commercial property is client-directed and 59.3% say that term deposit decisions are directed by clients.

Traditional asset allocation methods, which generally involve an assessment of risk tolerance followed by placement of the client into a standard asset allocation based on that tolerance, are seen by some trustees as an attempt to lock them into inflexible approaches and take control of their entire financial position. Such an approach does not take into account the longevity risk or time horizon to retirement of the client, nor does it account for other factors that might influence the asset allocation and risk/return profile of the trustee.

With desire for control and flexibility the two major drivers of SMSF establishment, trustees understandably want a similar approach for their asset allocation i.e. advisors to consider these risks and customise their portfolio accordingly.

For many trustees that attended the focus group, international exposure was viewed as being achieved by investing in Australian shares with operations abroad, an approach that not only adds to an existing domestic stock bias, but also increases concentration risk.

Financial planners are best placed to educate trustees about the more recent adaptive asset allocation approaches employed by many funds – allowing them to readily adapt to changes in the investment environment and client circumstances. It's also worth pointing out the benefits of investing in multiple asset classes, and the most appropriate way to invest in international equities.



On average trustees have an allocation of only 6.0% to international equities, and are not accessing the expansive investment universe on offer through exchange-traded-funds (ETFs) or managed funds. However in order to provide this advice, financial planners may need to start broadening their advice services and familiarity with international investment opportunities if they are genuinely wanting to provide a strategic offer to SMSF trustees.

Given the apparent lack of diversification within many trustee portfolios, there is clearly a need to educate trustees about the concept of multi-asset investing i.e. an investment solution that uses multiple assets, adaptively managed to maximise the probability of achieving their client's desired investment outcomes.

As many of the early establishers move into retirement phase, the conversation must also turn to the most appropriate asset class mix in the decumulation phase. Only 43.9% of retired trustees had changed or were planning to change their asset allocation in retirement, with one focus group participant intending to live off the income from high yielding, fully franked shares. While ideally all trustees would adapt or at least reassess their investment strategy a more proactive approach by trustees than APRA fund members, with less than one third of these saying they had changed or were planning to change their asset allocation in retirement.

The conversation needs to lead with strategy, not product or investment, with the intention of building confidence in and understanding of the advice proposition.

### The role of professional advice

Where do trustees turn to for information and guidance? In 2012, 22.0% of trustees say they derived their asset allocation strategy for their SMSF based on the advice of their accountant, compared to only 14.2% in 2011, while those using advice from other professionals/specialists doubled to close to 22.0% in

2012. These results are also reflected in focus group research, with a substantial proportion of participants relying most heavily on accountants and stock brokers to provide specialist investment recommendations, alongside their own investment research. Although 20.4% are deriving their strategy through means other than professional advisors, such as gut instinct (11.9%) and friends, family or colleagues (8.5%), this is not necessarily the exclusive source of guidance, with some of these also relying on professionals – supporting the preferred partnership approach to advice.

Given the desire for control over investment decisions; the perception among many SMSF trustees that they can do a better job themselves than a professional; the pervasive view of financial planners as 'product pushers' and the increasing reliance on specialist advice, financial planners face a difficult challenge in engaging with unadvised SMSF trustees.

Planners increasingly need to deliver specialised advice and guidance as opposed to general advice and a one-size-fits-all investment solution, which is exactly what trustees were trying to get away from when they left their APRA fund. While this may not be the case in reality (32.3% of financial planners say that they construct unique portfolios for each client and 27.7% specifically for SMSFs), the focus group research suggests that SMSF trustees feel that planners try to push them into particular products and rigid asset allocation approaches.

As such, professional bodies have a role to play in communicating not only the value of advice, but the different types of advice that planners can offer, including strategic advice and planning, and access to asset classes not generally available to SMSF trustees investing directly themselves.

Financial planners are also in a position to provide education to trustees on the benefits of diversification and the risk/return profile of other assets outside of the limited investment universe of cash, Australian equities and property. The Australian sharemarket was down 7.0% for the 2012 financial year, but 46.0% of trustees that are invested in Australian shares say that they achieved a positive return from their Australian equities investments in the last 12 months (to end of September/beginning October 2012).

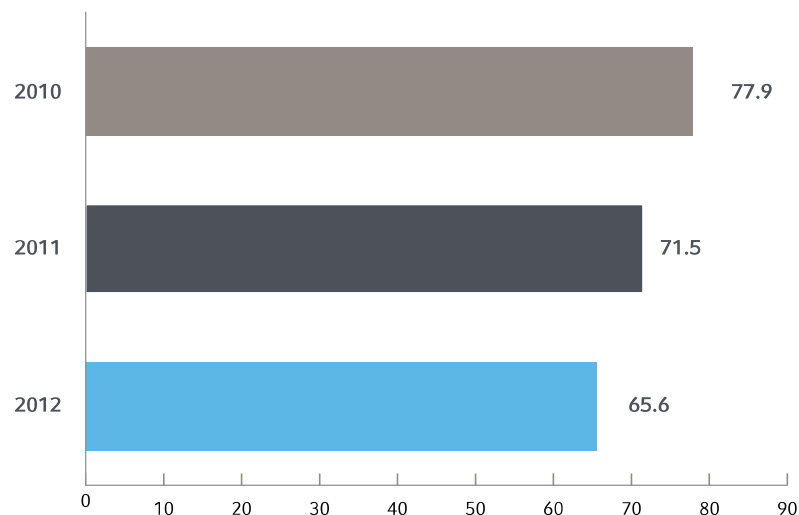
### Trustees prefer direct investments

Reflecting a greater appetite for transparency and control, the majority (77.8%) of trustees buy assets directly (shares, term deposits and property) for their SMSF portfolios, while only 24.9% use managed funds. According to the research, a declining proportion of financial advisors are using managed funds to invest trustee assets. As Figure 7 illustrates, use of managed funds has fallen to 65.6% from

77.9% of financial advisors in 2010. Cash investments (71.0%) and direct Australian equities (70.2%) are the two most advised areas by financial advisors servicing the SMSF sector.

It is likely that the reduced use of managed funds is not only a reflection of a desire for direct ownership of assets, but is also related to some degree to trustee perceptions of the one-size-fits-all-approach of managed funds, product push by planners and poor performance. Direct ownership also provides trustees with flexibility. For example, trustees would be aware of widely reported criticism of the unresponsiveness and static nature of super fund asset allocation structures and high allocations to equities which were maintained during the GFC. Post-GFC many managed funds are being enhanced to be more adaptive and responsive to market conditions.

Figure 7 – Do you use managed funds to invest SMSF clients' assets?



n = 410 (2010), 410 (2011), 380 (2012), respondents who advise on SMSFs

## Benchmarking performance

An area that remains difficult to accurately track is SMSF trustee investment performance, given that we rely on trustees' self-assessment of performance until the ATO's lagged release of performance figures. While super fund performance for the median balanced fund as reported by research houses was marginally positive (for the 2012 financial year), it was certainly a recovery compared to returns in 2011. This is also reflected in how trustees judged their performance, with 69.8% claiming they achieved a positive return over the past year, up slightly from 65.6% who say they did in 2011. Similarly, only 13.5% say they recorded a negative return over the past financial year compared to 20.5% in 2011.

There was a substantial jump (42.0% vs. 22.2%) in trustees that say they made a return of less than 5.0% in 2012 which is in line with the marginally positive returns reported by the average balanced fund. In addition, 18.4% say they returned between 5-7% in 2012, down from 35.7% in 2011. An improved market environment also meant that the size of negative returns was substantially reduced in the past year. Although 52.5% of trustees recorded a return of less than -5.0% in the past year, compared to 27.5% in 2011, only 22.0% returned -10.0% or worse in the past year, down from 43.5% in 2011.

While some super funds clearly articulate investment objectives to members (such as CPI + objectives), others are not as straightforward, making it difficult for members to compare the performance of their fund. In this sense SMSF trustees claim to do a much better job, with 77.5% saying that they use clear or at least flexible goals.

However, the benchmarks and objectives trustees use to measure their own performance can vary. Whether entirely appropriate or not, the All Ordinaries Index is the most commonly used (31.2%) benchmark, up from 27.5% in 2011. Interestingly, this

is closely followed by trustees that say that they set performance targets to meet their retirement goals (27.8%), however this is down marginally compared to last year (31.1%).

The super fund industry is only now debating how to best implement asset allocation decisions/changes at the individual member level, according to members' performance and retirement goals. Less than one quarter (20.4%) say they use guidance from an advisor to set performance goals, down marginally from 22.3% last year, or that they use CPI+ objectives (20.4%), down from 25.6% in 2011.

## The road ahead

*"I think super itself is burdensome. The legislation and everything is just a nightmare, but when it comes to SMSFs, we've actually got a pretty good bargain in that the Government's given us fairly easy choice of super in the form of our own self-managed superannuation. So, I wouldn't say the whole thing was burdensome."*

(Male, SMSF trustee)

## General

Longevity risk has been with us for a while and has continued to escalate as people's lifespans increase. However, the profile of longevity risk was only raised in the superannuation industry following the immediate impact of the GFC on retirement savings.

The industry as a whole has since searched for answers, with super funds striving to develop appropriate solutions or products.

Confidence in the superannuation system has deteriorated across the board. However, APRA fund member confidence has been hardest hit, compared to that of SMSF

trustees. The loss in confidence is not all related to fund performance, but also to the constantly changing nature of superannuation legislation.

Generally, continuous changes lead to uncertainty, however, one direct consequence of this is that the lowering of concessional contribution caps will mean less money going into the sector, which will instead be channelled into either cash or other investment options, depending on risk appetite. Given that voluntary member contributions are on the decline, this is particularly concerning for those approaching retirement who are more likely than other demographics to contribute extra to super.

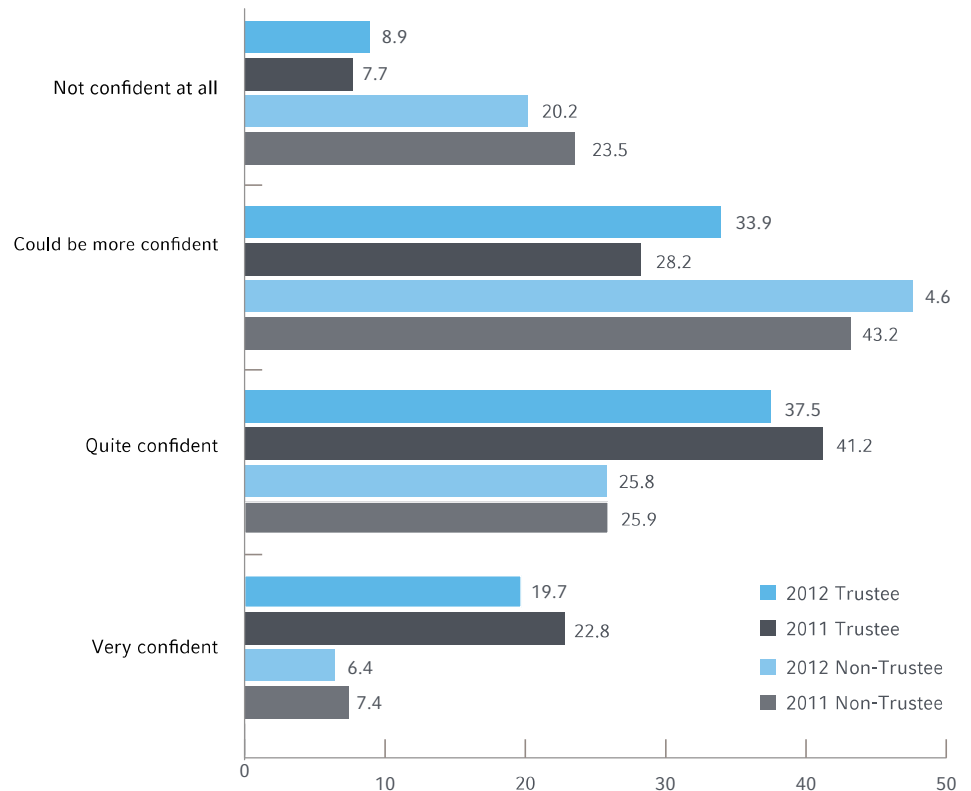
### Is super the best vehicle for retirement?

*"...you've always got to have investments outside of super as much as you have in super, and therefore when you do retire, you have access to either/or. You don't just hedge it all with one basket of either being in super or outside of super."*

(Male Focus Group Participant, SMSF Trustee)

The past couple of years have seen the Government and the Australian superannuation industry grapple not only with low account balances for members

**Figure 8** – How confident do you feel in the superannuation system as a vehicle for your retirement savings?



n = 1,555 (2012), 1,405 (2011)

approaching retirement, but with the looming longevity crunch. Financial market turmoil and uncertainty since 2008 not only sapped the confidence from investors and super fund members, but it also left large holes in member account balances. So much so that many on the cusp of retirement would have postponed retirement until a later date and continued working.

As a result, retirees and those close to retirement are likely to rely on a combination of the following measures for maintaining adequate levels of retirement income and standard of living:

- › Account based pension
- › Postponing retirement
- › Phasing into part-time work rather than full retirement
- › Relying on savings and other assets
- › Age pension (indexed to CPI)
- › Changes to spending patterns

As such, confidence in superannuation has taken a hit. As Figure 8 shows, the confidence of APRA-fund regulated members has waned the most, with 20.2% not confident at all in super as a vehicle for their retirement savings, and 47.6% saying they could be more confident. While SMSF trustee confidence slipped over the past year, it is certainly nowhere near as low as that of non-trustees, with only 8.9% of trustees not at all confident in super as a vehicle for their retirement savings and 33.9% saying they could be more confident. The majority of trustees are confident in super (57.2%) compared to 32.2% of non-trustees. For trustees, this represents a decline from 64.0% who were confident in 2011.

For many superannuants, account balances have only recently recovered the lost ground since their peak in November 2007, just before the onset of the global financial crisis. But is this sufficient?

Overall, the confidence levels of SMSF trustees in meeting their retirement objectives remain largely unchanged, with 63.5% saying they are at least reasonably confident that they are on track to achieve their retirement goals, compared to 65.7% in 2011. A slight recovery in the sharemarket does appear to have lifted expectations for some, with 22.9% very confident that they are on target, up from 17.2% in 2011. However, confidence in meeting retirement objectives still lags levels reached in 2010, when 34.1% were very confident.

Far fewer non-trustees are confident about meeting their retirement targets, with 43.1% saying they will fall short, compared to 28.6% of SMSF trustees. In fact, more than double the number of non-trustees compared to trustees (23.2% vs.11.3%) thinks they will fall very short of meeting their retirement objectives. Male trustees are slightly more confident than female trustees that they are on track to achieve their target retirement income (64.6% vs. 60.8%).

## Managing longevity risk

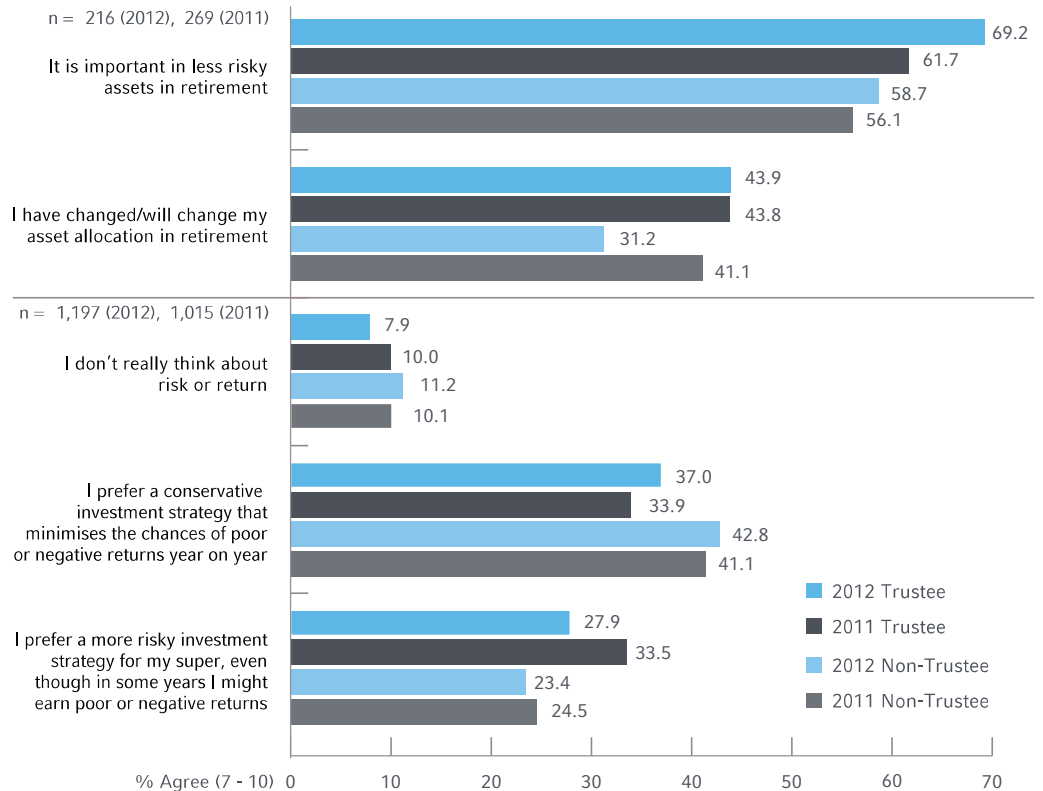
Despite the growing importance of the retirement sector, as large numbers of baby boomers reach the retirement phase; to date, super funds have fallen short of offering solutions that appropriately address longevity risk. In the absence of compulsory annuities in retirement, such as in the UK, and the still low demand for lifetime and variable annuities in Australia, this simply leaves members with the current account based pensions already offered by most super funds. These are largely exact replicas of their accumulation products, both in terms of asset allocation structures and investment objectives.

Trustees approaching or already in retirement require a different approach to managing their

investments that aligns with their retirement goals, and which may include a greater focus on income and wealth preservation as opposed to wealth maximisation. It is precisely at this stage where trustees are most likely to change their investment strategy, with 43.9% having already changed or expecting to change their asset allocation in retirement, as shown in Figure 9, on par with 2011 (43.8%).

The majority (69.2%) say it is important to allocate to less risky assets in retirement, a slight increase on the 61.7% who were of this view in 2011. These themes are also seen in non-trustee attitudes and behaviours.

**Figure 9 –** When it comes to investing your superannuation, to what extent do you agree with the following statements?



Respondents who are not retired AND members of public sector or retail super fund or industry super fund or corporate super fund or self managed super fund (SMSF)



*"I intend to rebalance & reduce my share holdings, & use some of my cash / term deposits to purchase retirement apartment(s) both here and overseas."*

(Male, Trustee, 65, Vic)

It is here that financial planners are best able to offer tailored solutions and strategies, with 32.7% of trustees likely to turn to a financial planner for investment decisions, the highest proportion of any of the professional advice sources. Some 12.1% would turn to accountants for this, while just 5.3% would turn to their SMSF administrator. Three quarters (77.2%) of those who would turn to a professional for help would be willing to pay for that service, suggesting the high value placed on professional advice and assistance when it comes to perceived gaps in trustees' own capabilities.

In the retirement phase, financial advisors must look to offer solutions not necessarily available in off-the-shelf products and which include an asset mix not necessarily as appropriate during the accumulation phase, such as annuities, tax efficient equity strategies focused on sustainable dividend yields and franking credits (direct and or through managed funds), term deposits and other

asset classes. Investment advice by financial planners is also particularly important as trustees age and are not able to be as 'hands-on' in managing their affairs, particularly those used to actively managing assets directly and taking views on markets themselves.

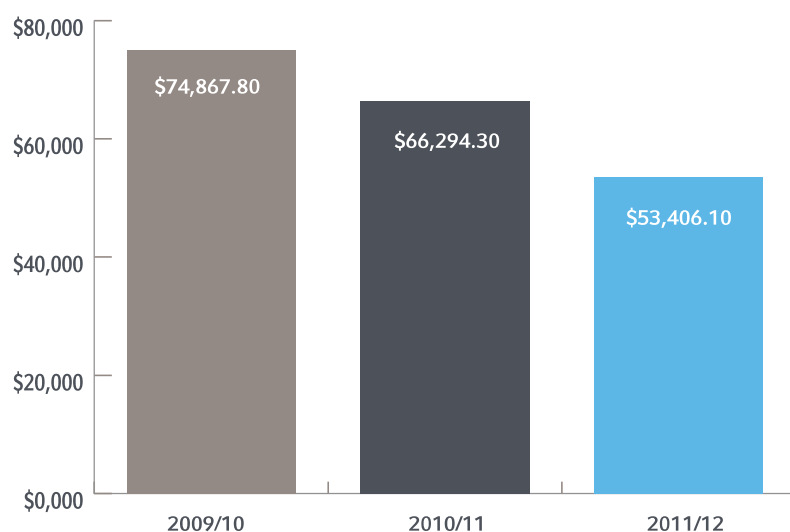
### Regulatory strain

*"...I'd rather have it in both [Super and an SMSF], hedge it both ways, that way you can control your own destiny if the rules change within the super industry or whether it's your own personal investments outside of super. I think it just gives you control that way, at least some control. You've got control one way or the other."*

(Male Focus Group Participant, SMSF Trustee)

It's a well-known fact that superannuation members have been reducing their voluntary contributions, and it's no surprise that this is not only as a result of lower confidence in super fund performance (with members preferring to leave their money in cash and term deposits), but also as a response to the constant legislative changes within the super system.

Figure 10 – Average additional contribution per trustee



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Constant changes make people wary of putting extra funds into super for fear of further regulatory changes that may impact these investments. A prime example is the lowering of concessional contribution caps from \$50,000 per year to \$25,000, which effectively removed the ability of superannuants to put extra funds away for their retirement. This has a substantial impact on the over-50s age group, which is more likely than any other demographic to make extra contributions to super above the Super Guarantee minimum, in order to boost their savings as they approach retirement.

The reduction in concessional contributions caps has altered the way in which superannuants in the SMSF sector save for retirement. More than half (53.4%) of trustees say they will use a different strategy to save for retirement as a result of concessional contribution caps being set at \$25,000. Of those that will use a different strategy, 74.6% say that they will invest their savings outside of superannuation. This is followed by 28.2% that say they will use their savings for gearing purposes – an approach that needs careful consideration to individual circumstances.

Not only are there implications from the lowering of the contribution caps from a retirement savings vehicle point of view, there are also large financial implications given the amount that would have been contributed had the caps not been in place.

On average, trustees would have invested an extra \$53,409 each in financial year 2011/12 if contribution restrictions had not applied. This equates to a total of \$16.8 billion that

the super system could have failed to capture from SMSFs in 2012, compared to \$12.4 billion in 2011 (see Figure 10). The amount trustees were most likely to have contributed above and beyond the caps was \$20,001 - \$30,000, with 16.1% of trustees saying they would have made a contribution in this range, up from 4.2% in 2011. Less than one third (28.5%) say that they would not have made extra contributions in any case.

In terms of the difference between male and female trustees, male trustees are more likely to have contributed extra to their super in the absence of cap restrictions across a number of contribution ranges, but particularly in the \$20,001 - \$30,000 range, which was the most common and cited by 17.4% of male trustees compared to 12.6% of female trustees.

What impact do financial advisors think the lower contribution cap and additional 15% contribution tax on concessional contributions for clients earning more than \$300,000 will have on their client base? They are split, with 49.0% saying these changes will have a moderate to significant impact on their client base and 44.9% saying the changes will have no impact. The remainder (6.0%) are unsure about how these changes will affect their clients.

Where regulations constantly change, the chance that more will follow creates uncertainty, particularly when they impact people's long term retirement savings directly, thereby affecting behaviour and lifestyle decisions. The proposed increase in the preservation age is a case in point. The current rules state that those born before

June 30, 1960, can access their super from age 55. However, those born on or after July 1, 1964, will have to wait until they're 60. So, anyone born after mid-1964 will not be able to access their super until they are 60. This creates a gap between the preservation age for super and the Age pension, which could potentially accelerate the depletion of super assets before retirees become eligible for the Age pension.

Three quarters (77.7%) of planners believe that increasing the preservation age from 55 to 65 would make their clients more likely to stay in the workforce. This illustrates that having access to superannuation savings is an important factor for clients when deciding when to retire. Similarly, 72.9% say that if the age from when a tax-free super benefit can be received was raised to 65, on average their clients would be more likely to remain in the workforce.

One area of regulatory change not expected to impact financial planner businesses as much is the introduction of a limited accounting licence. More than half of financial planners (53.8%) do not expect the introduction of the new licensing regime to impact their business, claiming that the services they provide are much broader than those offered by accountants.

However, accountants are clearly looking to compete with planners in the advice space, with 47.1% of those surveyed expecting to obtain a limited licence to provide strategic advice and 6.9% expecting to obtain a full licence and become authorised to provide full financial advice.

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## Conclusion

Growth in the SMSF sector shows few signs of abating, with new opportunities for financial advisors servicing SMSF clients coming from increased professional referrals, a younger demographic and a move towards specialist advice.

In addition, regulatory change – while often a double-edged sword – is creating opportunities for advisors, with the shift to fee-for-service and disclosure aligned with trustee preferences and the requirement to consider insurance as part of a trustee investment strategy opening the door to financial planners to broaden their client base.

The trend that is likely to have the biggest impact on financial advisors in the SMSF sector however is the preference among many unadvised trustees for specialist advice and to deal with multiple advisors – rather than a one-stop-shop solution.

With trustees placing great importance on the qualifications, expertise and track record of those providing advice services, financial planners, accountants and others looking to capitalise on the move towards specialisation will need to upskill via further education to ensure they are equipped with the skills to deal with the unique and often complex needs of SMSF clients.

A major challenge facing financial planners in particular, however, is the negative perceptions held by many of the unadvised – particularly controller trustees – about financial planners. This, coupled with confusion over the term financial advisor and the role of a planner, could prove a barrier for planners seeking to grow their business through new client acquisition. Professional bodies have a key role to play in assisting those who are licensed to provide advice to SMSF trustees to address this confusion and clarify the role of a planner in the minds of consumers.

While the financial planning industry's shift to fee-for-service should help to address some of these perceptions, many of those servicing SMSF clients are in fact already charging an explicit fee for service, as this year's research has demonstrated, meaning the challenge lies not so much in adaptation on the part of advisors but on communication at both an advisor and industry level.

From an asset allocation perspective, traditional methods employed by advisors, which generally involve an assessment of risk tolerance, followed by placement of the client into a standard asset allocation, based on that tolerance, are considered too rigid by some trustees, lending weight to the need for a re-think over the way portfolios are constructed for SMSF clients.

With desire for control and flexibility the two major drivers of SMSF establishment, trustees understandably want a similar approach for their asset allocation – for advisors to consider these risks and customise their portfolio accordingly. They also want the ability to purchase assets directly, suggesting a need for advisors to broaden their advice services to include competency in direct asset classes if they are genuinely wanting to provide a strategic offer to SMSF trustees.

While most financial planners do not anticipate major changes as a result of the introduction of a limited licence for accountants, given the strong interest from accountants in obtaining the new licence, none of those competing for SMSF business can afford to rest on their laurels.

Success in 2013 and beyond will be contingent on advisors responding to the evolving needs of current and future SMSF clients, and leveraging regulatory change as an opportunity to improve advice take-up among the trustee sector.

# Appendices

## Trustee research

Gender	
	Percent
Female	34.1
Male	65.9
Total	100.0

Age	
	Percent
21 - 30	11.8
31 - 40	18.4
41 - 50	21.6
51 - 60	25.5
Above 60	22.7
Total	100.0

Occupation	
	Percent
Professionals	31.4
Managers and administrators	19.5
Clerical, sales and service workers	13.5
Small business owner	6.7
Associate professionals	5.7
Other	4.4
Executive	4.2
Director	3.7
Tradespersons and related worker	3.3
Labourers and related workers	2.2
Homemaker	1.8
Production and transport workers	1.3
Primary producer	1.2
Contractor	0.8
Total	100.0

Household Income	
	Percent
\$50,000 or less	14.5
\$50,001 to \$75,000	14.0
\$75,001 to \$100,000	17.5
\$100,001 to \$125,000	14.4
\$125,001 to \$150,000	11.6
\$150,001 to \$200,000	14.0
\$200,001 to \$250,000	6.0
\$250,001 to \$350,000	4.6
\$350,001 or more	3.5
Total	100.0

State/Territory	
	Percent
NSW	29.9
VIC	26.7
QLD	17.2
WA	11.5
SA	9.0
ACT	2.6
TAS	2.5
NT	0.6
Total	100.0

Area	
	Percent
The capital city of my state / territory	70.4
A regional centre	21.0
A rural area	8.6
Total	100.0

## Trustee research (Cont)

Employment Status	
	Percent
Other	32.7
Executive	18.8
Retired	17.1
Small business owner	13.6
Contractor	8.4
Non employed at present	5.8
Primary producer	3.6
Total	100.0

Education	
	Percent
Primary	0.1
Part of high school	6.2
Completed high school	13.7
Diploma or certificate qualification (inc Trades)	27.1
Degree qualification	29.9
Postgraduate qualification	23.0
Total	100.0

Investment Portfolio	
	Percent
I have no investments	7.5
\$50,000 or less	9.2
\$50,001 to \$150,000	12.6
\$150,001 to \$250,000	8.4
\$250,001 to \$350,000	7.1
\$350,001 to \$450,000	7.7
\$450,001 to \$550,000	7.2
\$550,001 to \$650,000	4.8
\$650,001 to \$750,000	4.8
\$750,001 to \$1 million	9.6
More than \$1 million to \$3 million	17.2
More than \$3 million to \$5 million	2.3
More than \$5 million	1.4
Total	100.0

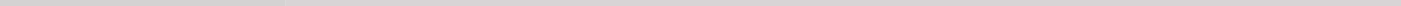
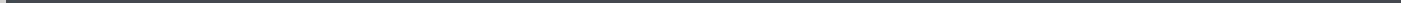


## Advisor research

Gender	
	Percent
Female	19.4
Male	80.6
Total	100.0

State/Territory	
	Percent
NSW	31.0
VIC	24.5
QLD	20.0
WA	9.7
SA	10.5
ACT	1.8
TAS	2.0
NT	0.6
Total	100.0

Area	
	Percent
10 years or less	28.8
10 - 20 years	42.2
20 - 30 years	24.3
More than 30 years	4.7
Overall	100.0





## CORE DATA

CoreData is a Sydney-based market research and consultancy firm, specialising in financial services research. Founded in 2002 to bridge the gap between high-quality market intelligence and insight, the group provides research and consulting solutions to financial services companies in Australia, China and the United Kingdom.

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SMSF  
Professionals'  
Association  
of Australia



FULL REPORT // FEBRUARY 2014

# INTIMATE WITH SELF-MANAGED SUPERANNUATION

An annual study of Self-Managed  
Superannuation Funds.

A research study issued by SPAA and Russell Investments.

INVESTED. TOGETHER.™



# Welcome to the fourth annual 'Intimate with Self-Managed Superannuation' report

*The report was commissioned by Russell Investments in conjunction with the SMSF*

*Professionals' Association of Australia (SPAA) and produced by leading market research consultancy CoreData, providing the pre-eminent quantitative analysis of Australia's growing SMSF market.*

*It is the culmination of research conducted among Australian SMSF trustees, financial advisers and accountants, and provides an insight into Australia's fastest growing superannuation sector.*

*The popularity and awareness of SMSFs across superannuation members remains high as evidenced not only by the sector's growth in terms of FUM, accounts and members but also by the increased focus that APRA regulated funds have placed on stemming the outflow of members to SMSFs and efforts to identify and retain those members most at risk of leaving.*

*Also on the rise is trustee confidence, due largely to a turnaround in investment performance from previous years. Levels of confidence also appear to be strongly linked with how well SMSF trustees and super fund members are tracking in meeting retirement objectives, with 66.7% of trustees reasonably confident they will meet their retirement objectives.*

*The 2014 report looks at the opportunities that exist as the growth in the sector continues. It also highlights the importance of advice and education, with access to investment expertise cited as a key benefit of using a financial planner.*

*Intimate With Self-Managed Superannuation continues to be the benchmark for the changing and evolving SMSF sector. We are pleased to present this report for the fourth consecutive year and we encourage your feedback.*

**Peter Gunning**

*Chief Executive Officer – Asia Pacific  
Russell Investments*

**Andrea Slattery**

*Chief Executive Officer  
SPAA*

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### **SMSF Professionals' Association of Australia Limited ("SPAA")**

SPAA represents professional advisers who provide advice in the highly complex area of self-managed super funds. The association's core focus is to raise the standard of advice provided by all professionals within the SMSF Industry and it is committed to promoting a high standard of education among SMSF professionals and assisting them to work within the regulatory framework.

[www.spaa.asn.au](http://www.spaa.asn.au)



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# Snapshot

## Tapping into SMSF growth

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### **SMSF intentions remain**

The popularity and awareness of SMSFs across superannuation members is high as evidenced by the sector's growth in terms of FUM, accounts and members. Growth has also come from members wanting greater control of their financial situation and the increase in the number of people in the professions and from small business.

While the proportion of superannuants looking to establish an SMSF in the next five years has dropped to 12.3% from 17.3%, the intention still remains high over the longer term as shown in Figure 1, with 14.2% of non-trustees likely to set one up in more than five years' time.

### **Investment advice most valued**

The need for specialist SMSF advice is an important area of growth. However the need for professionals who offer the full spectrum of SMSF services remains, with close to half (46.5%) of trustees expressing a preference for a professional services relationship that covers all their needs.

If we focus on those areas where trustees value advice the most, we find it is investment advice which is most valued, as cited by more than half (53.1%) of trustees, followed by tax advice (52.3%). It is important to note investment advice refers to investment strategy and asset allocation, rather than product or fund selection. It is here where AFSL licensed advisers need to tap into this latent need and leverage their experience and knowledge.

### **Demand from younger SMSF trustees expected**

While those over the age of 50 still account for the greatest number of SMSFs, it is still the 41-50 year old age group which continues to be the largest source of demand, as cited by three quarters of financial advisers. This is closely followed by those in the 31-40 year old age group, where two in three advisers are expecting greater demand from. In fact, this

younger demographic has exhibited strong growth over the past three years. They are interested in the longer term and have a good understanding of short term issues versus the longer term opportunity.

### **Professional referrals grow in importance**

Client referrals remain an important source of new SMSF clients for those advising and/or administering SMSFs (72.1%). However, professional referrals as a source of new SMSF clients have grown in importance over time and are now the most important channel as cited by 79.8% of advisers who source SMSF clients this way. This trend has risen steadily from 75.3% in 2012 and 65.5% in 2011, and now sits ahead of client referrals (72.1%) – it also represents a recognition of specialists in the sector.

### **Client contact key to engagement**

The importance of regular client contact cannot be emphasised enough, and it is encouraging to see financial advisers, on average, increased their contact with SMSF clients (either by phone or face to face) to 9.4 times per year, compared to 8.2 times in 2012.

Contact frequency is a major driver for maintaining advice relationships with clients. Across the industry, less than a third of advised clients see or is in contact with their main adviser for financial advice once every 12 months. However, those advised clients who are bonded to their adviser or have a firm relationship, see their adviser at least once every six months, while the overwhelming majority of those at risk of switching advisers, see their adviser once per year or less.

## Advice on their terms

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### Scaled advice as a gateway

The three key barriers to seeking advice, namely trust, proof of tangible value added, and affordability of fees, emerge as critical drivers for tapping into latent demand for advice usage.

As such, scaled advice provides a unique opportunity to begin conversations, demonstrate value and develop trusted relationships with investors that may go on to become full service arrangements. Focus group research revealed that although no participant used a financial planner, most would be willing to engage one on their terms and on single issues to begin with. It was agreed that “dipping a toe in the water” could potentially lead to ongoing and broader engagement if a financial planner were to demonstrate skill and not look to overhaul their investment strategy.

### Planners need to leverage investment expertise

For trustees, investment expertise, independence and recognised professional qualifications (as illustrated in Figure 4) are the top three key factors considered when looking for a financial adviser, each attracting an average ranking score of 7.2, 6.8 and 6.6 respectively out of 10. The importance of these factors is similar for non-trustees when seeking a financial adviser.

### Fee-for-service

Uncertainty around fees charged for advice remains an issue for advisers to surpass, however it is one that will likely change as a result of the FoFA reforms. In 2013, 56.2% of financial advisers say they haven't advised trustees about changes to fees for advice as a result of FoFA reforms, due to the fact their fee structures will not be affected, suggesting that most advisers servicing the SMSF sector are already operating on a fee-for-service basis. Almost two in five (38.5%) have advised clients there will be a change in the way they pay for advice while 4.4% have not got around to it yet.

### Expertise and specialisation valued most

While the majority (51.9%) of trustees prefer to drive their investment process, 12.7% value investment strategy information above all other information services.

In some instances, there is a perceived lack of diversification or longer term asset allocation and overall investment strategy. Here, financial planners have a key role to play in offering strategic investment advice that is not product related. For example, it is no surprise to see advised client portfolios are much more diversified across asset classes than those of unadvised trustees whose portfolios are, on average, dominated by cash holdings and direct Australian share holdings.

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## Do trustees know best?

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### Mass movement out of cash did not materialise

Despite the strong rise in equities over 2013, we did not see any substantial shift by SMSF investors out of cash and into higher risk asset classes. As such, some uncertainty remains, at least until investors have enough confidence that the recovery in markets consolidates over a long period. Instead, there was only a very small move away from cash in SMSF allocations, with 31.0% allocated to cash and term deposits in 2013 compared to 33.9% in 2012. This did not however flow into Australian equities, which saw a slight decline to 36.1% in 2013 from 37.1% in 2012, and instead benefited residential property, which climbed to 9.9% from 5.6%.

### Education on alternative sources of return needed

Given the sharp rally by international equities for the 2013 calendar year, which saw Russell Developed Large Cap Net Index in 47.8%, it is still surprising that the majority of trustees in focus groups continue to justify their lack of exposure to this asset class by reasoning that they gain such exposure through their allocation to Australian stocks with global operations. However, the Australian market (S&P/ASX 300 Accumulation Index) only gained 19.7% in comparison – this includes dividends, highly prized by SMSF trustees.

With only 5.3% allocated to international equities, and the latent need by SMSF trustees for investment advice, this is surely an area where financial planners can educate trustees about the benefits of diversification. Risk as a concept is not only related to asset classes along the risk curve but is also related to risk as an opportunity cost.

### Focus on goal setting expertise

No matter which money management segment you look at, access to investment expertise is cited as a key benefit of using a financial planner, as is financial goal setting. Even though controllers, on the whole, tend to be less compelled by these advantages

than the other segments, they still cite them as advantages. This opens up the space for financial planners to not only tap into the desire for investment strategy guidance, but to link this to goal setting.

### Do not ignore growing demand for direct investments

The growth in direct investment in Australia continues and is reflected within investment decisions made by SMSF trustees, whether they are advised or not. This reflects a desire for transparency and control, but also growing financial literacy and confidence of investors. The majority (70.4%) of trustees buy assets directly (shares, term deposits and property) for their SMSF portfolios, while only 25.7% use managed funds. Encouragingly, from an adviser perspective the falling trend in the use of managed funds for investing SMSF monies reversed in 2013.

### It's not all about performance

2013 saw super fund members finally recover their GFC losses, with the median balanced super option (where close to 70% of superannuants are invested), return 16.3%<sup>2</sup> for the year. This was of course driven by an allocation to equities of about 55%, with at least 30% on average allocated to Australian shares. Three quarters of trustees claimed they achieved a positive return over the past 12 months, up solidly from 69.8% who say they did in 2012. Similarly, only 3.4% say they recorded a negative return over the past 12 months compared to 13.5% in 2012.

It is no surprise the All Ordinaries Index is the most commonly used (32.3%) benchmark, however this is followed by those who set performance targets to meet their retirement goals (27.7%).

## Confidence returns

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### Strong returns drive lift in confidence

The turnaround in super performance has no doubt led to a solid lift in the confidence of superannuants and SMSF trustees alike, as demonstrated by the research. The majority of trustees are confident in super (61.8%), an increase from 57.2% in 2012. However, it was APRA-fund regulated members who experienced the largest lift in confidence in 2013, with 41.2% confident in super as a vehicle for their retirement savings, compared to only 32.2% in 2012.

### Retirement expectations

Levels of confidence appear to be strongly linked with how well SMSF trustees and super fund members are tracking in meeting retirement objectives, with 66.7% of trustees reasonably confident they will meet their retirement objectives, up from 63.5% in 2012. Far fewer non-trustees are confident about meeting their retirement targets, with 47.3% saying they expect to fall short, compared to 25.4% of SMSF trustees.

The research indicates 47.6% of trustees have already changed or expect to change their asset allocation in retirement, an increase from 43.9% in 2012. This suggests that SMSF trustees are aware of retirement issues and are regularly reviewing their strategy.

### In hope of an increase to contribution caps

On average, trustees would have invested an extra \$54,136 each (broadly in line with the previous concessional contribution cap of \$50,000 in 2009) in financial year 2012/13 if contribution restrictions had not applied. This equates to a total of \$16.4 billion that the super system could have benefited from SMSFs in 2013.

While the current contribution caps remain in place, two fifths (40.3%) of trustees say they will use a different strategy to save for retirement as a result of the concessional contribution cap being set at \$25,000. This is substantially less than 2012 (53.4%) and could suggest expectations of a lifting of the caps by the current Coalition government.

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# Methodology

The fourth annual *Intimate with Self-Managed Superannuation research report* is sourced from a collection of quantitative and qualitative data gathered from SMSF trustees and professional advisers between October and December 2013.

Two online surveys were developed and hosted by CoreData following liaison with SPAA and Russell Investments.

## SMSF trustee research

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### Online survey

The trustee survey was conducted from 23rd October through to 2nd December, the primary target being SMSF trustees. Data was also collected from members of other super funds (excluding SMSFs) and high net worth individuals (HNWIs) without SMSFs to compare and contrast the views of trustees against Australian Prudential Regulation Authority (APRA)-regulated fund members.

Respondents were sourced from CoreData's proprietary panel of more than 130,000 Australian consumers and SPAA's member network.

A total of 1,267 Australian consumers were surveyed, which included 385 SMSF trustees and 882 without an SMSF.

### Focus group

A focus group of eight SMSF trustees was held on the 3rd December in the Sydney CBD. The session ran for one and a half hours and was used to develop a deeper understanding of SMSF trustee behaviour and their future intentions.

## SMSF adviser research

### Adviser survey

The adviser survey was conducted from 23rd October through to 4th December and targeted professional advisers that provide advice and administration solutions for SMSF clients.

Respondents were sourced from CoreData's proprietary panel of Australian financial advisers and the SPAA member network and included primarily financial planners, accountants and practice principals, as well as a small number of paraplanners, auditors and lawyers.

A total of 406 responses were recorded for this component of the research.

### Definitions of terms used in this report:

**Financial adviser** – When we use the term financial adviser, we are using this as an all-encompassing term for professionals providing advice and/or administration services to the SMSF sector. This includes: accountants, stock brokers, financial planners, lawyers, auditors, paraplanners and administrators.

**Financial planner** – The term financial planner refers specifically to those who classify themselves as one of the following: financial planner, risk adviser or practice principal.

**Trustees** – respondents that are members of a self-managed super fund (SMSF).

**Non-trustees** – respondents that are members of APRA regulated superannuation funds.

# Detailed findings

## Tapping into SMSF growth

### General

Despite a softening in net establishments in 2013, the SMSF sector continues to enjoy a solid growth outlook as evidenced by the continued growth in accounts, members and assets, with the sector now moving beyond \$530 billion according to the Australian Tax Office (ATO) September 2013 report<sup>2</sup>.

As such, the sector remains an attractive opportunity for a number of players as well as remaining a threat for APRA-regulated funds that focus on retention measures in an attempt to stop the leakage to SMSFs. This is no surprise, as intentions by super fund members to set up an SMSF in the future have not reduced significantly and thus remains a major concern.

As financial services organisations turn to focus their attention squarely on growth opportunities, those servicing the SMSF sector must look to leverage their service offering and how they can leverage SMSF trustees' desire for specialist services.

For financial advisers, this means leveraging the assistance needed and value placed on investment strategy and financial goal setting. As such, planners need to engage trustees as sources of information and as coaches.

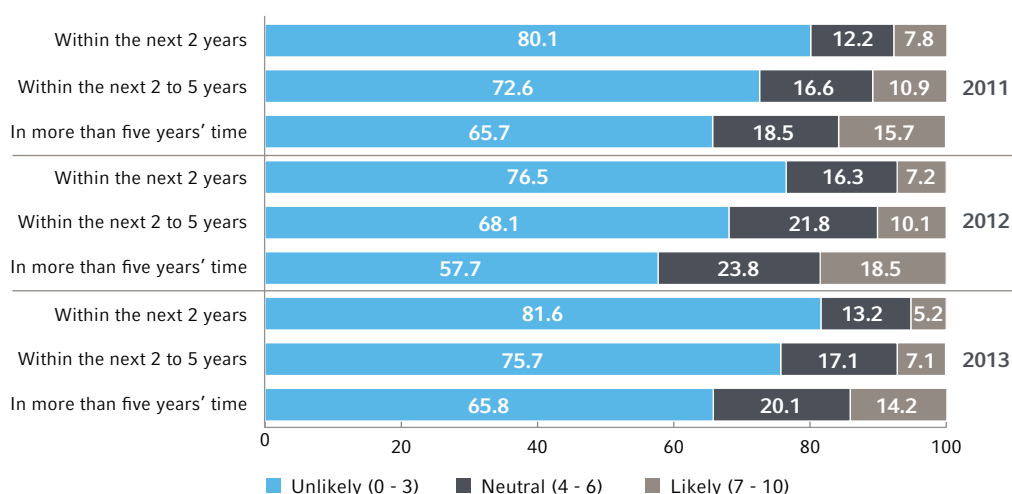
### SMSF intentions remain

The popularity and awareness of SMSFs across superannuation members continues to be high. This is evidenced not only by the sector's growth in terms of FUM, accounts and members but also by the increased focus that APRA regulated funds have placed on stemming the outflow of members to SMSFs and efforts to identify and retain those members most at risk of leaving.

Intentions to set up SMSFs among membership, coupled with substantial leakages to SMSFs, are serious enough to warrant a growing number of super funds to not only launch member direct (shares, term deposits and ETFs) platforms but also consider other solutions such as offering SMSF services through partnerships with SMSF specialists.

<sup>2</sup> ATO Self-managed super fund statistical report – September 2013

**Figure 1 – How likely are you to consider establishing an SMSF?**



n = 882 (2013), 1118 (2012), 1068 (2011), respondents who do not have an SMSF

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While the proportion of superannuants looking to establish an SMSF sometime over the next two to five years has dropped to 12.3% from 17.3%, the intention still remains high over the longer term as shown in Figure 1, with 14.2% of non-trustees likely to set one up in more than five years' time.

Many cite a number of barriers to setting up an SMSF, with more than one third (35.5%) of those that don't have an SMSF pointing to a lack of knowledge about SMSFs and 33.7% citing not having sufficient assets as key reasons for not having one – both down marginally from 2012 (36.9% and 35.1% respectively). This is followed by about three in 10 who say they prefer the security and expertise of an APRA super fund to take care of their retirement wealth – this increased from 26.7% last year. A further quarter say SMSFs are too much hassle or too complicated, while one fifth say they lack the necessary time required to run an SMSF.

The inaugural Intimate with Self-managed Superannuation report, published in February 2011, flagged the various behavioural profiles that exist within both the Australian population and the SMSF trustee sector.

'Controllers' make up around 20% of the Australian population, and some 10% of trustees in the 2013 research, and are defined as those who are interested in managing their money and enjoy doing it themselves.

'Coach seekers' make up about 30% of the population and around 45% of trustees in the 2013 research; they would rather do things themselves but need information to support their decisions – or are looking for someone to help them.

The 'outsourcers' segment make up 50% of the Australian population and 45% of trustees

in the 2013 research. Outsourcers are those that would rather someone else manage their money and finances and typically pass trust to third parties when it comes to financial decision-making. They are the least likely to have an SMSF, at only around one in seven trustees – largely due to the traditional perception of the SMSF as a 'do it yourself' option.

A greater proportion of outsourcers, relative to controllers and coach seekers, say that a lack of knowledge (45.2% vs. 16.5% and 41.4% respectively), and too much hassle involved (31.6% vs. 23.6% and 30.5%) are barriers to establishing an SMSF. For coach seekers, reasons that carry more weight compared to outsourcers and controllers for not establishing an SMSF are insufficient asset size (35.5% vs. 27.1% and 34.3%) and preference for the security and expertise of APRA funds (35.3% vs. 31.6% and 17.4%).

While 19.6% of those without an SMSF would consider establishing an SMSF, if a financial planner or accountant were able to address their concerns about SMSFs and were able to explain how having one may benefit them, this is a notable drop from 26.2% in 2012.

Financial planners (34.8%) appear to be the most trusted source of advice for setting up an SMSF, as opposed to last year's top choice of accountants. More than two fifths of female (42.0%) and three out of 10 male (30.8%) non-trustees would be more likely seek out a financial planner in order to set up an SMSF than an accountant (20.0% and 26.4% respectively).



### Investment advice most sought after

The need for specialist SMSF advice is an important area of growth. However the need for professionals who offer the full spectrum of SMSF services remains, with close to half (46.5%) of trustees expressing a preference for a professional services relationship that covers all their needs. Focus group research continues (as observed in 2013 and 2012) to demonstrate that trustees (both controllers and even outsourcers) seek and value multiple information sources, as well as sources of advice – all with the objective of helping them as trustees make informed decisions. The majority of participants use various advice sources including accountants, brokers and lawyers, but are reticent to place their trust in one source of advice such as with a financial planner.

Looking at SMSF advice, we continue to see a trend by trustees to seek advice from specialists in those areas where they require most assistance, with three quarters of trustees in 2013 saying they would be willing to pay a professional for specialist services. Compliance is the area that is cited by trustees as the one with which they require the most help (42.7%). However, it is accountants that are the most likely beneficiaries of this trend, with 42.9% of trustees most likely to turn to accountants for compliance help, compared to only 15.1% who would turn to a financial planner for help in this area. Compliance assistance is closely followed by tax (40.1%) as an area where trustees need assistance.

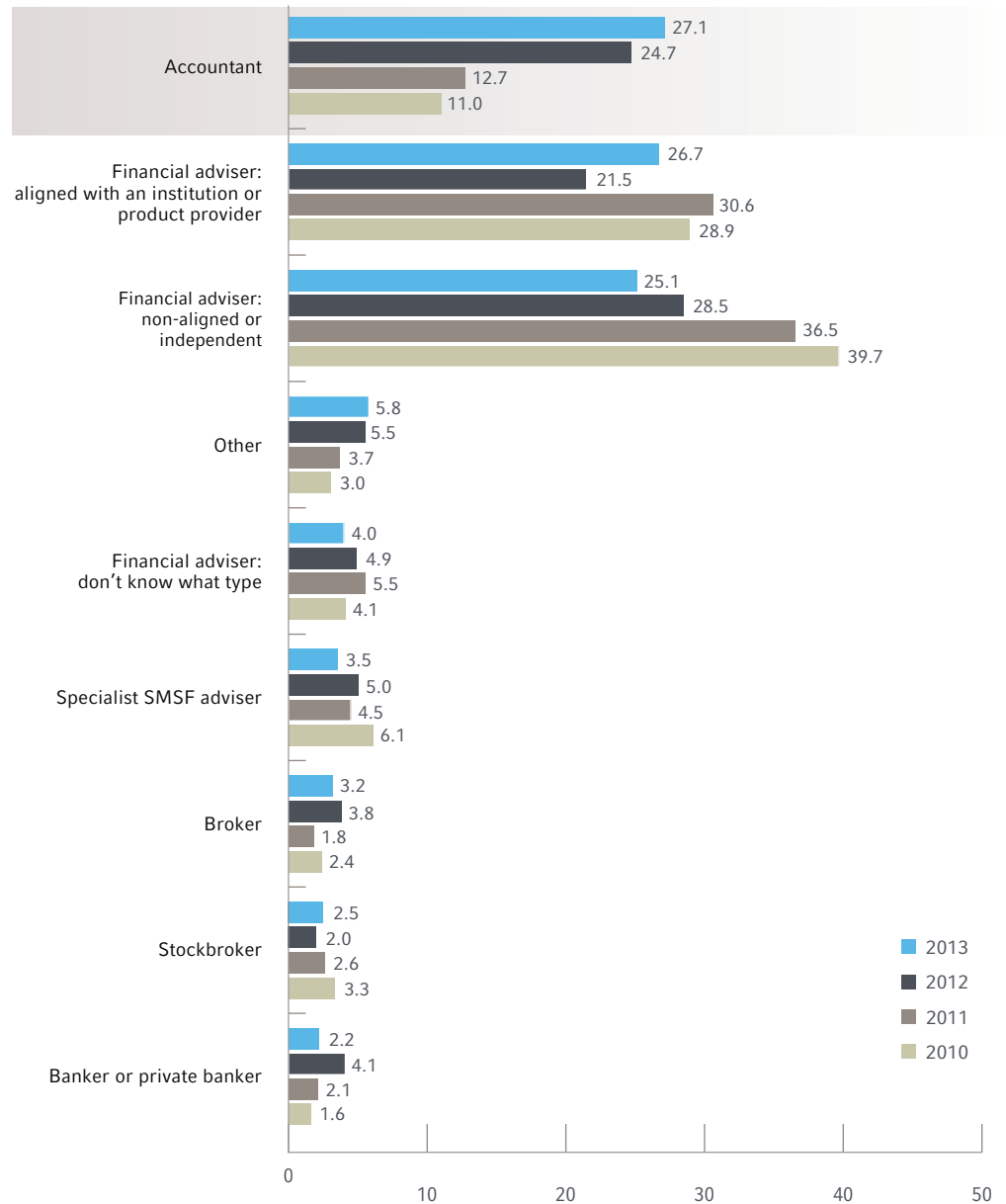
However, if we focus on those areas where trustees value advice the most, here we find it is investment advice which is most valued, as cited by more than half (53.1%) of trustees, followed by tax advice (52.3%). It is important to note that investment advice refers to investment strategy and asset allocation, rather than product or fund selection. It is here where financial planners need to tap into this latent need and leverage their experience and knowledge.

Once they have engaged one or more financial advisers, the majority (66.4%) of trustees prefer a partnership approach, either partly relying on or using a primary advice provider for high level ideas in conjunction with their own work or that of others. This is similar for non-trustees, with 67.9% also using this partnership approach to advice, reflecting the increased control investors seek.

Accountants have also become a primary source for overall financial advice among SMSF trustees (see Figure 2a). Some 27.1% say accountants are their current primary source of advice, whilst also citing them as their secondary source of advice above all other advice sources (see Figure 2b). The use of financial planners as a primary source of advice by trustees has risen, with 51.8% of trustees using an independent financial adviser (IFA) or an aligned financial planner compared to 50.0% in 2012.

Unlike previous years, in 2013, trustees are now slightly more likely to use an aligned financial planner (26.7%) than an IFA (25.1%), possibly reflecting recent mergers and acquisitions of IFAs by institutions.

**Figure 2a** – Please nominate your current primary source of professional advice regarding money and financial matters?



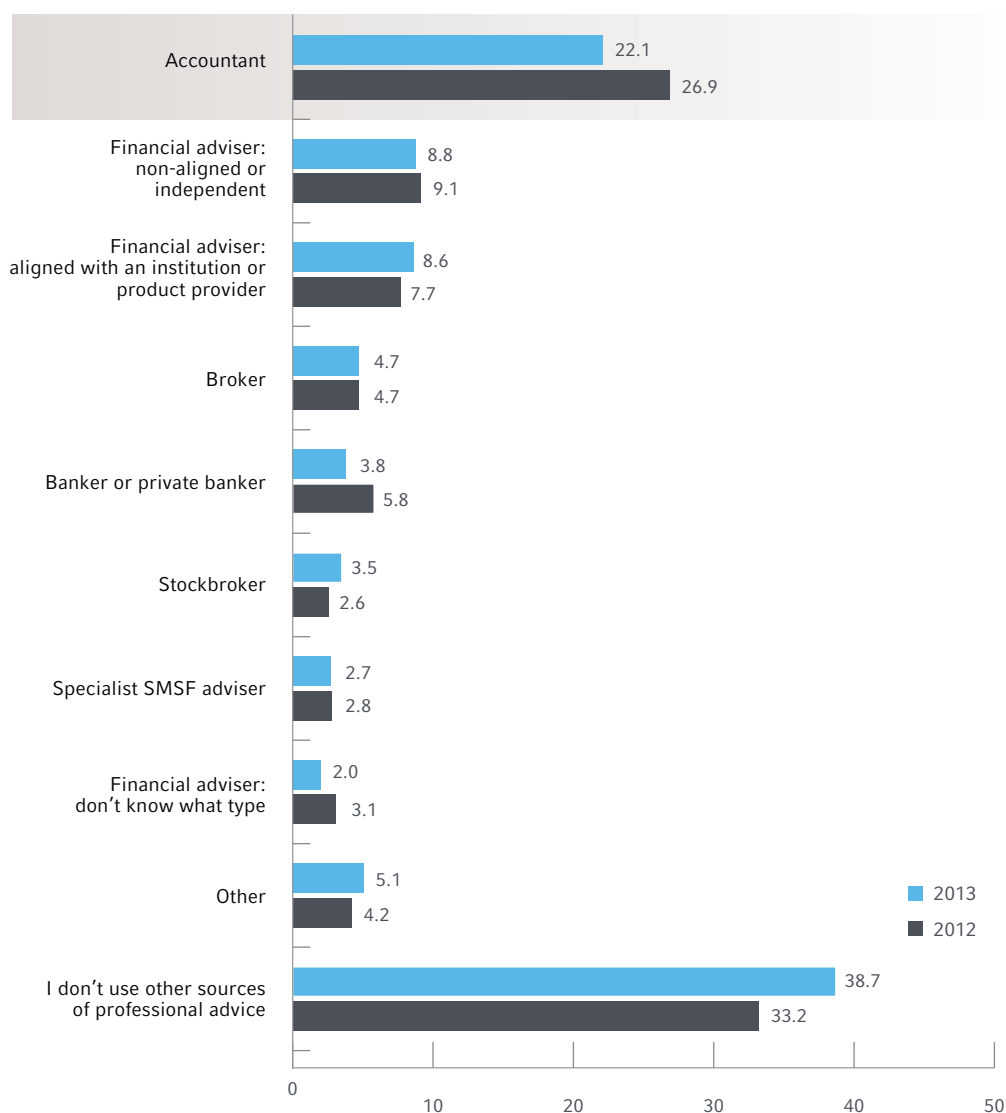
n = 782 (2012), 620 (2011), 686 (2010), respondents who use professional advice regarding money and financial matters.

Although trustees are more likely to have a dedicated financial planner than non-trustees, less than one third say they have one in 2013. Trustees cite numerous reasons for not using a dedicated planner, however the most common obstacles for both trustees and non-trustees remain the perception they simply do

not need one (38.6% vs. 30.3% respectively) and that planners push products for their own benefit (36.5% vs. 30.3% respectively).

A strong view among trustees is that they themselves can in fact do a better job than a planner.

**Figure 2b** – Please nominate your secondary source of professional advice regarding money and financial matters?



n = 782 (2012), respondents who use professional advice regarding money and financial matters.

However, fewer trustees cite these as barriers in 2013 than in past years. Controllers are far more likely than outsourcers and coach seekers to select these as barriers to using a dedicated planner.

### Demand from younger SMSF trustees expected

Some weakening in SMSF establishments over the past year points to a potential softening in SMSF growth going forward, and this appears to be in line with growth expectation as cited by financial advisers. While the majority of financial advisers expect continued growth in the SMSF sector, with a solid majority (64.9%) saying the number of SMSFs being established will increase in the next 12 months, this is lower when compared to 70.1% in 2012 and 75.1% in 2011.

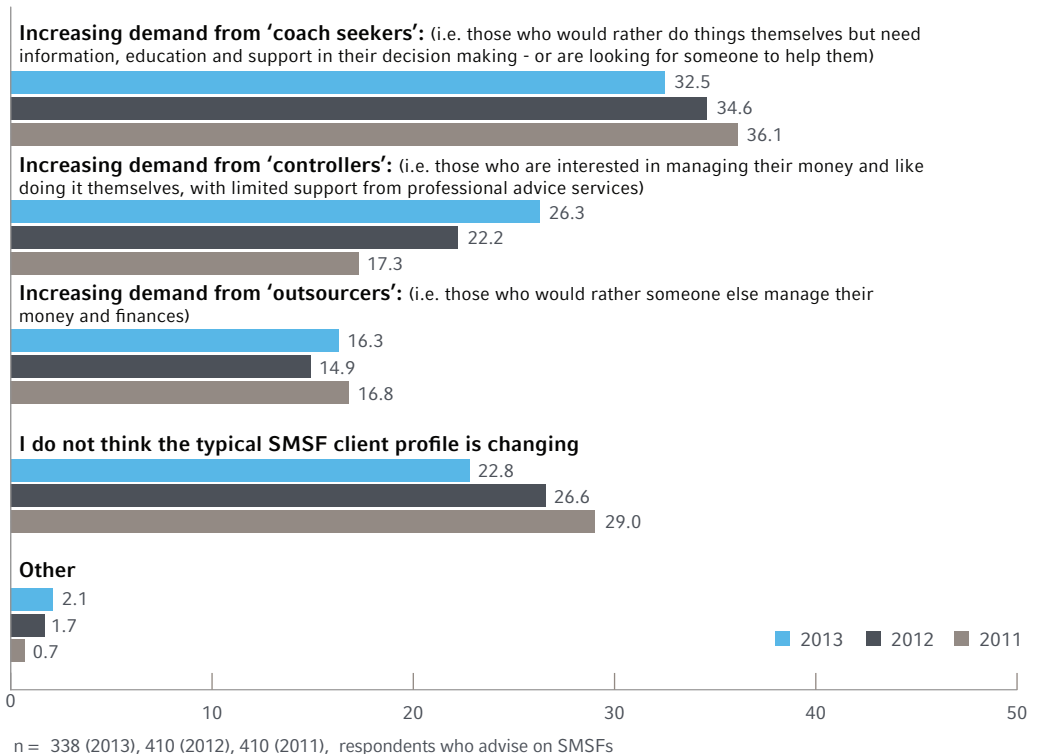
Focusing on growth within the different demographic segments, while those over the age of 50 still account for the greatest number of SMSFs, it is still the 41-50 year old age group which continues to present the largest source of demand, as cited by three quarters of financial advisers. This is closely followed by those in the 31-40 year old age group, where two in three advisers are expecting

greater demand from. In fact, this younger demographic has exhibited strong growth over the past three years.

About half of advisers' clients are in the accumulation stage (47.2%), comparable to previous years' research, while 20.5% are undergoing transition to retirement and 32.3% are retired. The split between male and female trustees remains in line with previous years, with males representing 57.8% of SMSF clients.

If we look at the behavioural profiles of SMSF trustees in Figure 3, the highest increase in future demand is expected to come from coach seekers (32.5%). However, 26.3% of advisers expect an increase in demand from controllers, an increase on 22.2% in 2012 and 17.3% in 2011, suggesting continued growth among the 'traditional' SMSF trustee segment of those seeking control and flexibility over the management of their super.

Figure 3 – How do you think the profile of the typical SMSF client is changing?



### Professional referrals grow in importance

Client referrals remain an important source of new SMSF clients for those advising and/or administering SMSFs (72.1%). However, professional referrals as a source of new SMSF clients have grown in importance over time and are now the most important channel as cited by 79.8% of advisers who source SMSF clients this way. This trend has risen steadily from 75.3% in 2012 and 65.5% in 2011, and now sits ahead of client referrals (72.1%). Two in five (40.8%) referrals are coming from external accountants, followed by in-house accountants (24.7%) and mortgage brokers (14.3%).

Up-selling and cross-selling within an existing client base is also an important source of new clients for financial advisers, however this has fallen to 36.6% who cited this method, considerably lower than 43.5% last year.

### Client contact key to engagement

While the growth of the SMSF sector is recognised broadly by industry participants, including financial planners, the intent among advisers who do not currently service SMSFs, to offer SMSF advice in the future continues to fall. Only 17.2% of those who are not in the space intend to offer SMSF advice in the future, down from 20.3% in 2012 and 25.5% in 2011. Concurrently, 44.8% do not intend to offer SMSF advice in future, up from 43.5% in 2012.

This downward trend continues although SMSF clients offer a proportionally greater source of revenue than non-SMSF clients, which thereby presents a missed growth opportunity for these advisers. In 2013, trustee clients represented 39.6% of the respondents' client base, but accounted for 43.2% of revenue. This is an increase from last year's numbers (33.4% and 38.0% respectively).

The main reason cited for not offering SMSF services is that they already have a referral arrangement in place for those clients who seek SMSF advice (34.5%), up from 23.2% in 2012. This stresses the importance of referrals and how planners and accountants can not only co-exist but work together to achieve business growth. Almost one third of advisers (31.0%) say offering an SMSF service is not in their area of expertise, marginally lower from last year (33.3%).

As has been previously observed, IFAs are more likely than aligned planners to say they will offer SMSF advice in the future. One in four (40.0%) IFAs are likely to offer SMSF services, substantially ahead of only 12.5% of aligned planners. IFAs are also more likely to offer a wider range of SMSF services than aligned planners, across SMSF establishment, administration and tax advice.

Regulations and compliance remain the key obstacles for many advisers. Respondents were asked to rank the top five challenges they faced, and these were computed as an average ranking score out of 10. Regulations and compliance received an average ranking score of 4.8 out of 10. Although managing trustee responsibilities and obligations remains challenging (3.8), this is down from 4.0 in 2012 and 4.3 in 2011, which may suggest an improvement in the education of trustees around their role and responsibilities as the sector matures.

Advisers continue to spend the majority of their time advising clients on lower risk assets such as cash and term deposits; however this area saw a substantial decrease in 2013 to 63.0% from 71.0% in 2012. Other asset classes where advisers reduced their focus from an advice point of view included fixed income, direct equities and commercial property. Advice on infrastructure investments rose to 23.4% from 15.4%.

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About one third of advisers (34.6%) construct unique portfolios for SMSF clients compared to other wrap or retail clients, a rise from 25.6% in 2012. While a further 32.8% say they construct unique portfolios for every client, regardless of whether they are in an SMSF or not.

The importance of regular client contact cannot be emphasised enough, and it is encouraging to see financial advisers, on average, increase their contact with SMSF clients (either by phone or face to face) to 9.4 times per year, compared to 8.2 times in 2012. Similarly, with performance reporting, advisers reported on trustees' investment returns 4.8 times per year in 2013 compared to 3.2 times in 2012.

Contact frequency is a major driver for maintaining advice relationships with clients. Across the industry, less than a third of advised clients only sees or is in contact with their main adviser for financial advice once every 12 months. However, those advised clients who are bonded to their adviser or have a firm relationship, see their adviser at least once every six months, while the overwhelming majority of those who are at risk of switching advisers, see their adviser once per year or less.

Encouragingly, 36.6% of advisers are in direct contact with their typical SMSF client at least monthly, up from 34.1% in 2012 and 31.6% in 2011.

## Advice on their terms

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*"I want to see what value they are offering and see if they can do it better than me. Maybe they can add value through advice on strategy. Or it may be that they can show me how to structure the trust deed so that I get the best out of estate planning. But they have to show how they can do a better job than me."*

(Focus group participant and SMSF trustee)

### General

A key challenge that financial planners have to face broadly is the perception that their services and what they have to offer are not sufficiently specialised for the needs of SMSF investors. As such, planners need to educate and better promote their services and the specialist nature of their investment strategy advice in particular. This is a strong point of leverage given that investment strategy is one of the areas of advice most valued by trustees.

It is clear then that this is an area of advice that can be tapped into, as is financial goal setting. However, planners must demonstrate knowledge, expertise and reputation as well demonstrate effectively the benefits of their service.

Scaled advice potentially opens up the door to engage trustees who are sceptical of financial planners, in a sense allowing planners to prove their worth on single issues before broadening the advice relationship.

*"I come to the table here having been burnt by a financial planner. And the only way to get me back there is to offer a try before you buy. Literally even do it on a model portfolio."*

(Focus group participant and SMSF trustee)

### Scaled advice as a gateway

The three key barriers to seeking advice, namely trust, proof of tangible value added, and affordability of fees emerge as critical drivers for tapping into latent demand for advice usage.

As such, scaled advice provides a unique opportunity to begin conversations, demonstrate value and develop trusted relationships with investors that may go on to become full service arrangements. Focus group research revealed that although no participant used a financial planner, most would be willing to engage one on their terms and on single issues to begin with. It was agreed that "dipping a toe in the water" could potentially lead to ongoing and broader engagement if a financial planner were to demonstrate skill and not look to overhaul their investment strategy.

*"I could go in and dip my toe in the water and see how they go with it, you know a small amount and build from there."*

(Focus group participant and SMSF trustee)

Broader CoreData research indicates that a majority of non-advised investors would be likely or very likely to consider seeking professional advice if it was delivered more on their desired terms, with coach seekers representing the greatest latent demand in this regard, followed by outsourcers. If satisfied with the scaled advice received from a financial planner, three quarters of investors are likely to consider expanding this into more of a full-service advice relationship, with coach seekers the most likely to consider expanding into a full service relationship.

This suggests that scaled advice may be a more affordable and less intimidating pathway to develop trust with trustees and facilitate a more involved relationship over time.



### Planners need to leverage investment expertise

While it is too early to tell what impact the FoFA reforms will have on consumer perceptions of advice and financial planners in particular, a negative perception on the value of advice by SMSF trustees continues to be present. In many instances, this is driven by previous experiences with financial planners, where trustees claim that planners have sought to push products when what they want as trustees is guidance and investment strategy advice.

*“The good planners will say I don’t know what markets are going to do and I can’t necessarily beat the market but I can focus on strategy and put together a portfolio that’s appropriate for you.”*

(Focus group participant and SMSF trustee)

Knowledge, expertise and reputation are key considerations for consumers when selecting a financial adviser. So is the ability to demonstrate effectively the benefits of their service.

As such, factors such as reputation are important for planners to address if they are to change these perceptions and increase the number of SMSF trustees who consider using their services. For trustees, investment expertise, independence and recognised professional qualifications (as illustrated in Figure 4) are the top three key factors considered when looking for a financial adviser, each attracting an average ranking score of 7.2, 6.8 and 6.6 respectively out of 10. The importance of these factors is similar for non-trustees when seeking a financial adviser.

**Figure 4:** What do you look for in your main professional adviser? Please rank the following characteristics, where 1 = most important to you

	Trustees			Non-trustees			Overall		
	2011	2012	2013	2011	2012	2013	2011	2012	2013
Investment expertise	6.9	6.8	7.2	7.1	7.1	7.4	7.1	7.0	7.3
Recommendation or trusted service		7.1	6.6		6.4	7.1		7.1	6.9
Recognised professional qualifications (SSA, CA, CPA, CFP)	6.0	6.8	6.6	6.6	6.9	6.8	6.4	6.9	6.7
Business reputation	6.7	6.9	6.4	6.3	6.7	6.7	6.4	6.8	6.6
Track Record	5.7	6.2	6.5	6.0	6.5	6.6	5.9	6.4	6.5
Rapport of the financial adviser	6.8	6.9	6.5	6.0	7.2	6.5	6.3	6.6	6.5
Suitable fee structure	5.7	6.1	6.0	5.5	6.1	6.3	5.5	6.1	6.2
Independence (i.e. not aligned with an ?)	6.2	6.9	6.8	5.4	5.8	5.7	5.7	6.2	6.1
Professional body membership (e.g. SPAA, CPA, ICAA, IPA, FPA)	5.3	5.8	6.0	5.5	6.0	6.0	5.5	5.9	6.0
Client testimonials	3.3	3.9	4.3	4.0	1.1	4.1	3.8	4.0	4.2
Brand	2.3	2.6	3.1	2.5	3.2	3.0	2.5	3.0	3.0

### Fee-for-service

Uncertainty around fees and what one as a consumer is charged for advice remains an issue for advisers to surpass, however it is one that will likely change as a result of the FoFA reforms. In 2013, 56.2% of financial advisers say they have not advised trustees about changes to fees for advice as a result of FoFA reforms, due to the fact their fee structures will not be affected, suggesting most advisers servicing the SMSF sector are already operating on a fee-for-service basis. Almost two in five (38.5%) have advised clients there will be a change in the way they pay for advice while 4.4% have not got around to it yet.

### Expertise and specialisation valued most

*"I trust my accountant 100%. I leave the technical side of things to my accountant. He lets me know anything I need to know from the compliance side of things."*

(Focus group participant and SMSF trustee)

Focus group research continues to show that some trustees believe financial planners, in general, are either focused on pushing a product or are not specialists in the SMSF space and are more likely to use a 'cookie cutter' approach to advice. Rather, SMSF trustees have a preference for dealing with specialists such as accountants for tax and compliance matters. This is supported by the fact that both trustees and non-trustees prefer accountants as set up partners for SMSFs. This suggests an opportunity for financial planners, particularly those offering SMSF advice, to specialise their SMSF service offering in order to leverage the demand for SMSF specialist services.

It is clear that having expertise specifically with SMSFs is the most significant driver in engaging an adviser. Given the complexity of running an SMSF this is something trustees are seeking from an adviser.

This also presents professional bodies with a clear opportunity to not only provide specialist training but to also promote and increase the professionalism in the SMSF sector.

*"If the conversation is aligned and the planner is interested in knowing me that's a good thing. It may be that they do have the technical competence, but if someone is just going to sit there and harp on and not take the time or make the effort to get to know me then they will not get my business."*

(Focus group participant and SMSF trustee)

While the majority (51.9%) of trustees prefer to drive their investment process, 12.7% value investment strategy information above all other information services.

Given the lack of diversification or longer term asset allocation and overall investment strategy, financial planners have a key role to play in offering strategic investment advice that is not product related. For example, it is no surprise to see that advised client portfolios are much more diversified across asset classes than those of non-advised trustees whose portfolios are, on average, dominated by cash holdings and direct Australian share holdings.

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With regards to insurance, financial planners have done well to capitalise on trustee interest in insurance. Close to half (48.6%) of trustees say they considered insurance cover for one or more members of their SMSF when formulating their SMSF investment strategy, whilst 24.2% say their planner considered this on their behalf and then advised them. Of those that did take up insurance in 2013, 51.6% received advice, with 60.0% attributable to advice from a financial planner, compared to only 23.5% from an accountant and 16.5% from an insurance broker.

Gearing has seen a slight fall in interest, with only 21.3% of trustees saying they borrow to invest or plan to borrow to invest in their SMSF portfolio. Of these, only 53.7% intend to purchase residential or commercial property via instalment warrants, in what is a fall from 2012 (58.7%).

Almost half (49.4%) of financial advisers have advised trustees on the new borrowing rules to purchase a residential or commercial property in their SMSF via an instalment warrant, however only 7.7% intend to provide advice in this area in the future. Over one quarter of planners (29.0%) have not advised in this area at all.

## Do trustees know best?

*"I'm all Aussie equities but a great number of them have very substantial operations overseas, your BHPs, your Rios, your Woodsides etc. That's my offshore exposure. So I don't have to think about exchange rates and sovereign risk."*

(Focus group participant and SMSF trustee)

### Mass movement out of cash did not materialise

*"I typically keep my cash allocation at between 5 and 10% but it's now crept up to 15%, so I should probably do something about it. Bugger!"*

(Focus group participant and SMSF trustee)

### General

It was expected that the wall of cash that had built up in SMSF portfolios would finally shift significantly into equities and perhaps other higher risk assets in 2013. However, that didn't occur, with only a slight reduction in cash holdings. As such, trustees continue to call the shots, even those who are advised.

It is therefore a challenge for financial planners to educate trustees about the potential opportunities available in other asset classes, outside of cash and direct Australian equities. However, given trustees' dislike or lack of understanding of diversification, planners need to demonstrate the value of other asset classes and how these can play a role in helping the trustee achieve their retirement objectives. Otherwise to trustees, diversification in itself appears to be an industry tool for boxing them into categories in which they are not interested.

It is this valuable and strategic advice that can help trustees better position their portfolios and keep abreast of asset (as opposed to product) opportunities rather than forgo opportunities such as the double digit surge in international equities in 2013, that the vast majority of trustees would not have fully benefited from.

Despite the strong rise in equities over 2013, we did not see any substantial shift by SMSF investors out of cash and into higher risk asset classes. As such, some uncertainty remains, at least until investors have enough confidence that the recovery in markets consolidates over a long period. However, SMSF allocations overall did see a move away from cash, with only 31.0% allocated to cash and term deposits, compared to 33.9% in 2012. This did not however flow into Australian equities, which saw a slight decline to 36.1% in 2013 from 37.1% in 2012, and instead benefited residential property, which climbed to 9.9% from 5.6%.

As Figure 5 shows, reducing risk is no longer the main reason cited by trustees who have more than 10% of their portfolio allocated to cash. In fact, this has dropped substantially to 28.6%, from 32.4% in 2012 and 48.9% in 2011, when this was the main driver of cash holdings. In 2013, the number one reason (42.9%) that trustees retain a greater than 10% allocation to cash is because they are waiting for a better investment option.

*"My cash is there as a proportion I want in my portfolio. As a rule of thumb I like to keep about 10% in cash."*

(Focus group participant and SMSF trustee)

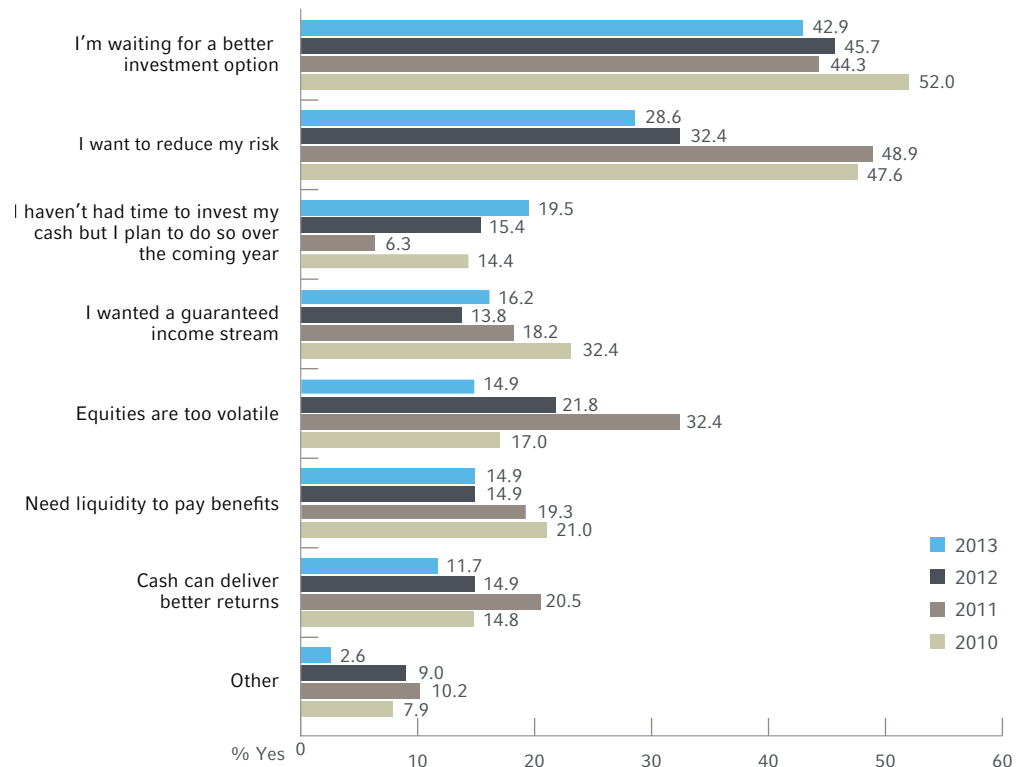
Further supporting this, only 14.9% of trustees say it is because equities are too volatile, compared to 21.8% who cited this in 2012 and 32.4% in 2011 and in line with 2010 (17.0%). A minority (16.2%) say they are holding more than 10% in cash because they want a guaranteed income stream, up from 13.8% in 2012 but down from 18.2% in 2011 and 23.1% in 2010. Only 11.7% say it is because cash can deliver better returns, down from 14.9% last year and 20.5% in 2011, reflecting a low RBA cash rate of 2.5%.

A large shift from cash to equities by investors (including SMSF trustees) did not materialise in 2013 as had been expected with the strong gains in Australian equities, but particularly international equities. Again, with interest rates still low, the majority (53.2%) of trustees are likely to look at alternative investments to cash to produce returns, however this is in fact lower than in 2012 (57.7%).

Australian equities remain the asset class most likely to be considered among 68.8% of trustees. More than one third will consider international equities, a sharp rise from 18.3% in 2012 and no doubt in response to the strong rally in international equities, while one third will look at residential property. The majority of controllers (61.6%) are likely to look at Australian equities, compared to 50.1% of coach seekers and 37.3% of outsourcers, suggesting a higher level of risk appetite.

The overwhelming majority of trustees (90.9%) review their asset allocation at least on an annual basis, with 55.8% reviewing their asset allocation at least quarterly.

**Figure 5 – What is the reason for your current allocation to cash?**



Multiple answers allowed  
n = 154 (2013), 188 (2012), 176 (2011), 270 (2010) respondents who have an SMSF AND who allocate at least 10% to cash.

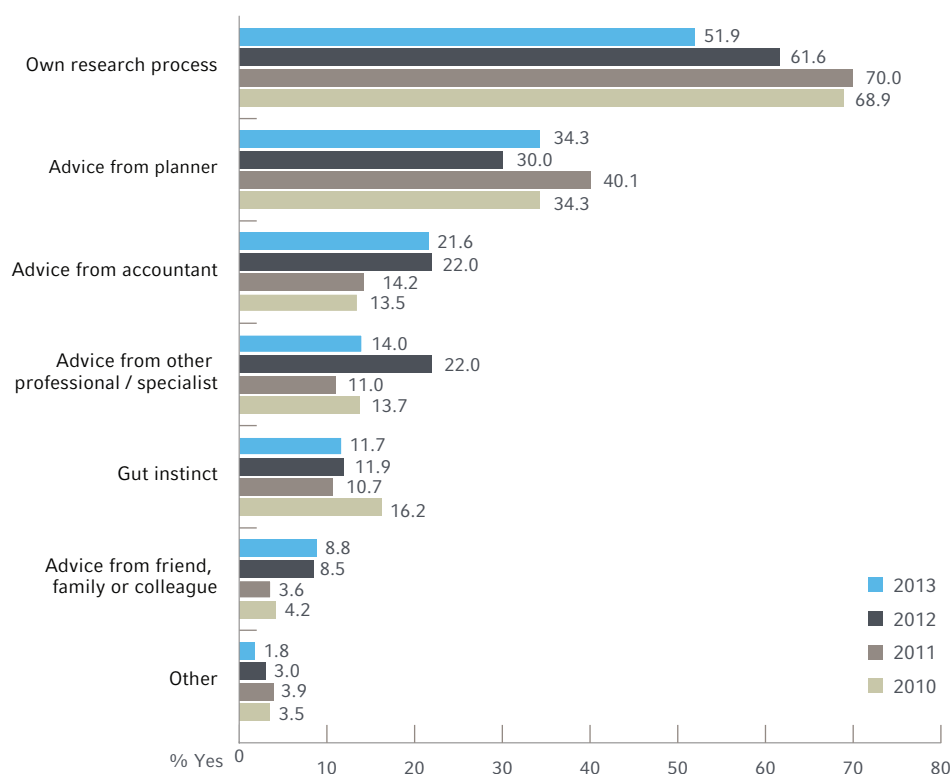
### Education on alternative sources of return needed

As ever, the substantial allocation to cash and concentrated direct holdings in Australian stocks by SMSF trustees present both an opportunity and challenge for financial planners. While cash holdings in the order of 10 – 30% in a low interest rate environment may seem unjustifiable to many, particularly as equities rebounded in 2013, this strategy is justifiable in the minds of trustees (and as observed in focus group research) and considered a strategic asset placement and legitimate long-term asset class. In other words, no matter how much equity markets may rise over a given year, many trustees will have a firm idea of how much of their SMSF portfolio they will leave in cash from a capital preservation perspective.

So given the opportunity in international equities over 2013, and Australian equities to a lesser extent, how does a financial planner successfully engage an SMSF trustee and discuss the greater pool of investment opportunities available to them and the risk of sitting in cash as an opportunity cost? This is a difficult challenge, given the type of assistance most trustees are looking for and the fact that three in five trustees (56.1%) claim they have strong or very strong knowledge of investments, compared with 20.4% of non-trustees.

This is reflected in how they make investment decisions, as Figure 6 shows. The majority (51.9%) use their own research process and while this is down from 61.6% in 2012, it is nevertheless a substantial proportion of trustees who are heavily involved in the development of their asset allocation strategy.

**Figure 6 – How did you derive your asset allocation and investment strategy for your SMSF?**



Multiple answers allowed

n = 385 (2013), 437 (2012), 337 (2011), 431 (2010) respondents who have an SMSF

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A majority (68.2%) of controllers drive asset allocation decisions themselves, compared to 47.3% of coach seekers and 8.7% of outsourcers. Only one third of trustees rely on financial advisers to derive their investment strategy, with usage of SMSF specialists for asset allocation and investment strategy falling to 14.0% in 2013 from 22.0% the previous year.

The majority of outsourcers (73.9%) rely on investment strategy advice, with only 40.8% of coach seekers and 17.1% of controllers using an advisers' advice in this area. This partly reflects the fact that many of the trustee respondents are unadvised; of those that have a financial adviser, 60.1% rely on advice from their financial planner when deriving their SMSF investment strategy and 35.6% rely on their own research, compared to 67.5% of those who are not advised.

The desire for control over investment decisions is also reflected in the fact that 46.7% of financial advisers say that client preferences drive their decision making around products and asset allocation for SMSF clients. Risk profile (65.7%) and strategic planning for the client (59.2%), however, are the main drivers of allocation cited by financial advisers – consistent with 2012 (70.5% and 65.4% respectively). In 2013, market environment (34.0% vs. 37.6%), return expectations (32.0% vs 36.6%) and cost (30.2% vs. 32.2%), have become lesser drivers of asset allocation.

A majority of advisers (82.8%) continue to cite that SMSF investment strategies are directed by the client at least to some extent, which reinforces the fact that trustees are much more likely to want a high-control relationship with their adviser, whereby they are able to use them more as a performance coach in a two-way relationship than to rely on them to tell them where to invest.

For accountants, the level of client input is slightly higher, with 82.6% saying that SMSF clients direct decisions to a large extent, or almost entirely, compared to 81.6% of financial planners.

What should not be surprising is that trustees direct investment decisions which are based on investments they are most familiar with. For the most part this means they tend to gravitate not only to Australian listed stocks, but large well-known names they are familiar with. One consequence of this is over concentration in banking stocks for example, but of course also a lack of diversification. Property and cash are also asset classes directed by trustees, with almost three quarters (67.5%) of financial advisers saying residential property investment decisions are directed by clients.

Given the sharp rally by international equities in 2013, which saw the Russell Developed Large Cap Net Index gain 47.8%, it is still surprising that the majority of trustees in focus groups continue to justify their lack of exposure to this asset class by reasoning that they gain such exposure through their allocation to Australian stocks with global operations. However, the Australian market (S&P/ASX 300 Accumulation Index) only gained 19.7% in comparison – this includes dividends, highly prized by SMSF trustees.

With only 5.3% allocated to international equities, and the latent need by SMSF trustees for investment advice, this is clearly an area where financial planners can educate trustees about the benefits of diversification but also how risk as a concept is not only related to asset classes along the risk curve but is also related to risk as an opportunity cost.

Likewise, planners have an opportunity to educate trustees about the benefits of adjusting their asset allocation as they transition to retirement, with only 47.6% of retired trustees having changed or planning to change their asset allocation in retirement. However, an important consideration is for advisers generally to consider any conversation relating to a change in strategy must be linked to a trustee's goal which typically means a particular dollar amount they want to retire with. The conversation must clearly centre on how a strategy will lead them to their goal, without focusing specifically on performance targets per



annum – keeping in mind a vast number of trustees intending to live off the income from high yielding, fully franked Australian shares.

### Focus on goal setting expertise

The desire for control by trustees is a given, it is just the degree of control they want to exercise that differs between the segments, with controllers and coach seekers those that desire greater control, in that order. By control, we mean that many SMSF trustees believe they can do a better job themselves than a professional. However, trustees still require and value investment strategy guidance on their terms, which means it should not be related to product.

No matter which money management segment you look at, access to investment expertise is cited as a key benefit of using a financial planner, as is financial goal setting. Even though controllers, on the whole, tend to be less compelled by these advantages than the other segments, they still cite them as advantages. This opens up the space for financial planners to not only tap into the desire for investment strategy guidance, but to link this to goal setting.

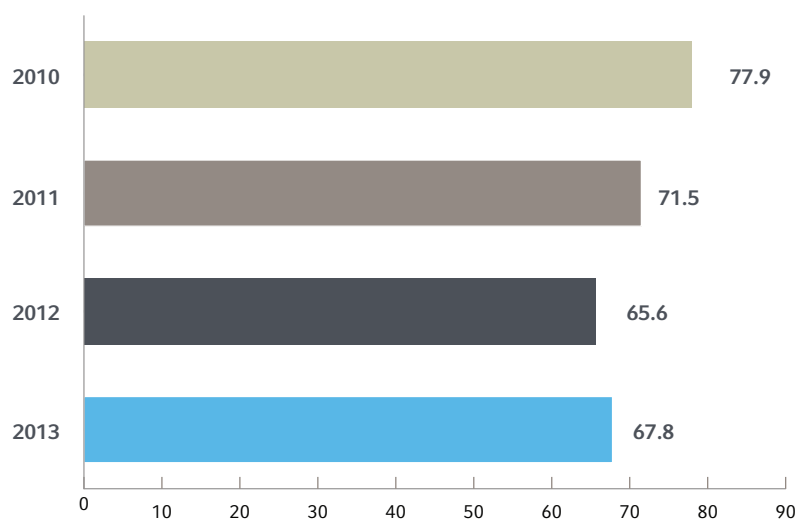
### Do not ignore growing demand for direct investments

The growth in direct investment in Australia continues and is reflected within investment decisions made by SMSF trustees, whether they are advised or not. This reflects a desire for transparency and control, but also growing financial literacy and confidence of investors. The majority (70.4%) of trustees buy assets directly (shares, term deposits and property) for their SMSF portfolios, while only 25.7% use managed funds.

Encouragingly, from an adviser perspective, the falling trend in the use of managed funds for investing SMSF monies reversed in 2013. As Figure 7 illustrates, use of managed funds has increased marginally to 67.8% from 65.6%, though it is still substantially lower than in 2011 and 2010 (71.5% & 77.9%). Cash investments (63.0%) and direct Australian equities (62.4%) are the two most advised areas by financial advisers servicing the SMSF sector.

There is a clear advice and management role for planners to play in supporting trustees interested in direct ownership, with strong latent demand identified for suitable

Figure 7 – Do you use managed funds to invest SMSF clients' assets?



n = 410 (2012), 410 (2011), 380 (2010), respondents who advise on SMSFs

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professional advice. Drivers and challenges for direct investing suggest there is a critical role for switched on financial planners to play in supporting trustees' decisions and investment management commitments. However, the timeless challenges remain for financial planners – how to convince investors of the tangible value they provide, their trustworthiness and cost effectiveness.

### **It's not all about performance**

2013 saw super fund members finally recover their GFC losses, with the median balanced super option (where close to 70% of superannuants are invested), return 16.3% for the year. This was of course driven by an allocation to equities of about 55%, with at least 30% on average allocated to Australian shares.

In this environment, 75.1% of trustees claimed they achieved a positive return over the past 12 months, up solidly from 69.8% who say they did in 2012. Similarly, only 3.4% say they recorded a negative return over the past 12 months compared to 13.5% in 2012.

More than one third of trustees (compared to only 4.9% in 2012) cited a return for the year of more than 15%, followed by 18.6% who said they achieved a return of between 11-15%. There was a substantial drop (15.4% vs. 42.0%) in trustees who say they only made a return of less than 5.0% in 2013, while 8.1% say they returned between 5-7% in 2013.

It is no surprise the All Ordinaries Index is the most commonly used (32.3%) benchmark, however this is followed by those who say they set performance targets to meet their retirement goals (27.7%). This was also a point of discussion in the focus group research, where trustees did not appear to be fixated on performance objectives and were aware and comfortable with the knowledge their portfolio may be up one year or down another, but they were reasonably happy they were on track to reach their retirement goal in the longer term and would make any tweaks needed to their investments as needed.

As much as super funds may criticise SMSF investors, it is interesting that only now some super funds are beginning to implement solutions to allow members to see how far or close they are to reaching their financial goals (outcome oriented investing), and what changes they (or the fund) need to make to their investment strategy in order to get there.

## Confidence returns

### General

A strong recovery in returns has driven an increase in confidence in superannuation. However, uncertainty in the system remains given the frequent change in legislation and the lack of incentivisation for superannuants.

With a new Coalition government in power, industry participants and superannuants hope that concessional contributions limits will rise, allowing particularly those approaching retirement to grow their retirement nest eggs.

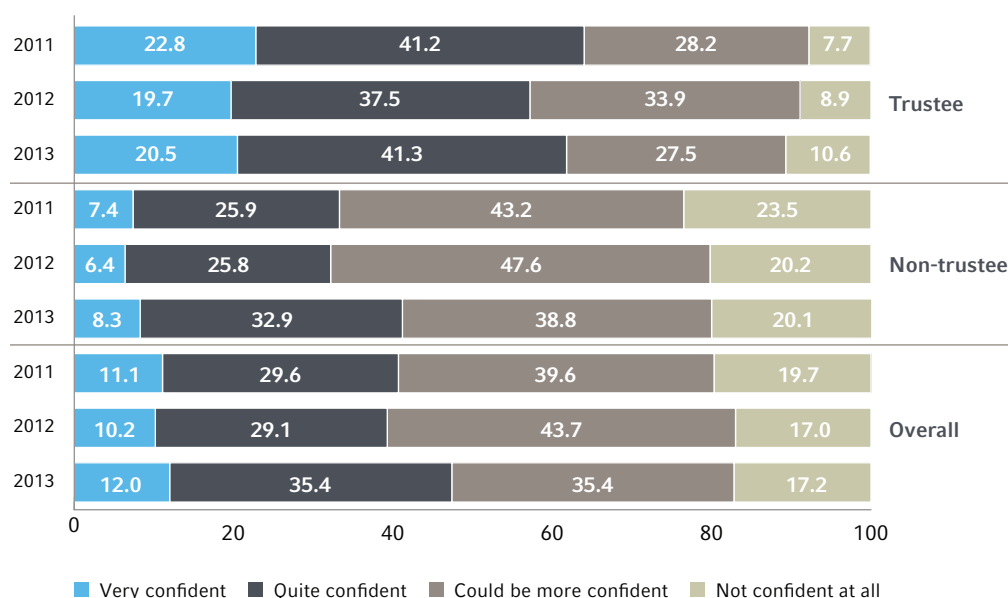
Though much greater than non-trustees, less than 70% of SMSF trustees are reasonably confident they are on track to meet their retirement objectives, yet only close to half have or are expecting to change their investment strategy in retirement. This is a clear challenge for financial planners to educate trustees on investment strategies most likely to help them achieve their retirement goals.

### Strong returns drive lift in confidence

The turnaround in super performance has no doubt led to a solid lift in the confidence of superannuants and SMSF trustees alike, as demonstrated by the research. However, uncertainty still remains, with a great number of super fund members approaching retirement facing a funding gap which will only be partially addressed if they remain in the workforce longer than they had anticipated – with more than 80% of those 45 years or older expecting to continue working (in one form or another) past their original expected retirement age.

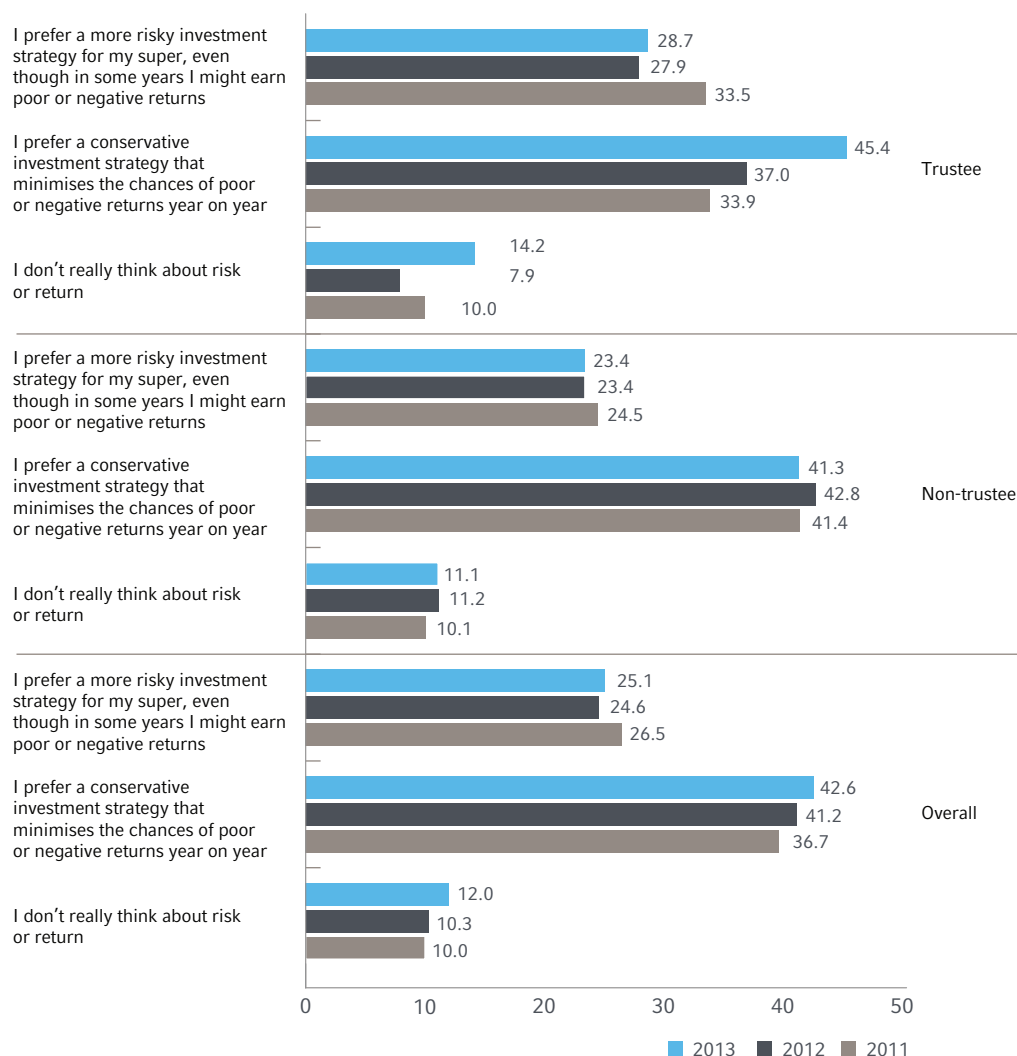
As Figure 8 shows, the majority of trustees are confident in super (61.8%), an increase from 57.2% in 2012. However, it was APRA-fund regulated members who experienced the largest lift in confidence in 2013, with 41.2% confident in super as a vehicle for their retirement savings, compared to only 32.2% in 2012.

**Figure 8** – How confident do you feel in the superannuation system as a vehicle for your retirement savings?



n = 1,267 (2013), 1,555 (2012), 1,405 (2011)

**Figure 9a – When it comes to investing your superannuation, to what extent do you agree with the following statements?**



n = 914 (2013), 1,197 (2012), 1,015 (2011), respondents who are not retired AND members of public sector or retail super fund or industry super fund or corporate super fund or self managed super fund (SMSF)

APRA-fund regulated members have the lowest levels of confidence with super, with 20.1% not confident at all in super as a vehicle for their retirement savings, and 38.8% saying they could be more confident. This stands in contrast with much stronger SMSF trustee confidence, with only 10.6% of trustees not at all confident in super as a vehicle for their retirement savings and 27.5% saying they could be more confident.

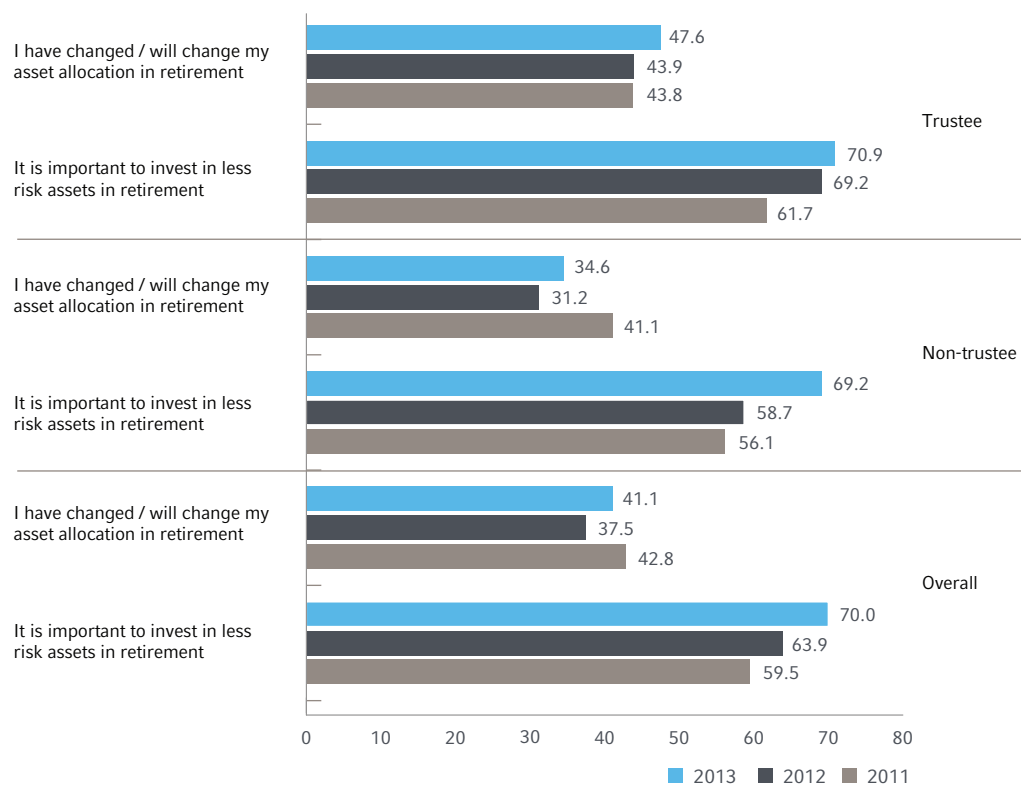
### Retirement expectations

Levels of confidence appear to be strongly linked with how well SMSF trustees and super fund members are tracking in meeting

retirement objectives, with 66.7% of trustees reasonably confident they will meet their retirement objectives, up from 63.5% in 2012.

Far fewer non-trustees are confident about meeting their retirement targets, with 47.3% saying they expect to fall short, compared to 25.4% of SMSF trustees. Almost four times more non-trustees compared to trustees (27.3% vs.7.5%) think they will fall very short of meeting their retirement objectives. Male trustees are slightly more confident than female trustees that they are on track to achieve their target retirement income (67.8% vs. 65.1%).

**Figure 9b** – When it comes to investing your superannuation, to what extent do you agree with the following statements?



n = 207 (2013), 216 (2012), 269 (2011), respondents who are not retired AND members of public sector or retail super fund or industry super fund or corporate super fund or self managed super fund (SMSF)

How trustees and super fund members expect to meet their retirement goals is very much dependent on their asset allocation and the number of years left before retirement approaches. However, not all fully understand the need to consider a change in investment strategy in approaching retirement and whether one's level of retirement savings warrant appropriate de-risking and a gradual shift towards more defensive and income oriented asset classes.

The research indicates 47.6% of trustees have already changed or expect to change their asset allocation in retirement, as shown in Figure 9. This is actually an increase from 43.9% in 2012. Although it represents an increase on 2012, for non-trustees this is lower, with only 34.6% recognising the need to change asset allocation.

Recognising the need to shift to a more defensive strategy, the majority (70.9%) of trustees and non-trustees (69.2%) say it is

important to allocate to less risky assets in retirement.

There appears to be a gap (and therefore an opportunity for financial planners) between the recognition of the need to change investment strategy in retirement and whether trustees and non-trustees alike have done so or expect to. This perhaps suggests a lack of knowledge and understanding of how best to implement these changes and is supported by the fact that a strong demand exists for investment guidance.

Considering that 28.8% of trustees are likely to turn to a financial planner for investment decisions, this opens up the opportunity for planners to educate, and promote their expertise in providing tailored solutions which are otherwise not available through superannuation funds.

## In hope of an increase to contribution caps

The Labor government's reduction of concessional contribution caps had a direct impact on how superannuants save for retirement. While the current contribution cap remains in place, two fifths (40.3%) of trustees say they will use a different strategy to save for retirement as a result of concessional contribution cap being set at \$25,000. This is substantially less than 2012 (53.4%) and could suggest expectations of a lifting of the caps by the current Liberal government.

Of those who will use a different strategy, 71.6% say they will invest their savings outside of superannuation, compared to 74.6% who said so in 2012.

As this report has previously noted, such low contribution caps not only impact retirement savings and incentives for superannuants to take control of their super and grow their nest egg, but also represent the growing long term opportunity cost, given the funds that would have been contributed had the caps not been in place.

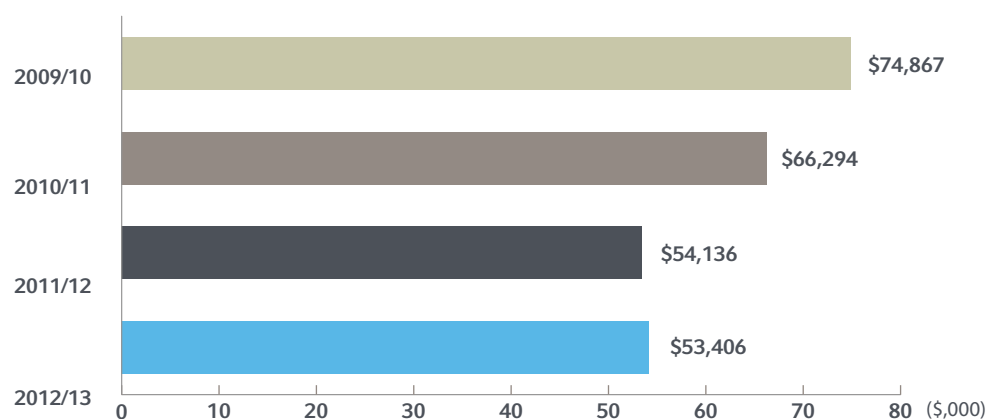
On average, trustees would have invested an extra \$54,136 each (broadly in line with the previous concessional contribution cap of \$50,000 in 2009) in financial year 2012/13 if contribution restrictions had not applied as shown in Figure 10. This equates to a total of

\$16.4 billion that the super system could have benefited from SMSFs in 2013. The amount trustees were most likely to have contributed above and beyond the caps was \$20,001 - \$30,000, with 11.3% of trustees saying they would have made a contribution in this range, down from 16.1% in 2012. One third (33.7%) say they would not have made extra contributions in any case.

In terms of the difference between male and female trustees, female trustees are more likely to have contributed extra to their super in the absence of cap restrictions across a number of contribution ranges, but particularly in the \$20,001 - \$30,000 range, which was the most common and cited by 12.4% of female trustees compared to 10.7% of male trustees.

A change in regulations, whether they are viewed favourably or not, means more work for trustees and SMSF advisers in particular. For advisers, it's perhaps important to not only keep abreast of changes but to be ready to adapt to changes and expect legislative changes are likely to occur in line with the electoral cycle – so that advisers would, for example, be prepared to communicate with clients and review their portfolios and strategies in anticipation of the current government lifting contribution caps at some point.

Figure 10 – Average additional contribution per trustee



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## Conclusion

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The continued growth in the SMSF sector remains an attractive opportunity for many sectors of the financial services industry and a source of concern for others such as superannuation funds. For financial planners in particular, the opportunity exists to tap into latent demand for advice, focusing on specialist advice and goal setting, as is increasingly being sought by SMSF trustees,

Misconceptions of what financial planners can bring to the table and lack of trust are however, barriers that would stop many from seeking advice from a planner or from going back to a planner after having negative experiences.

Leveraging investment expertise is a key factor for planners as this is one of the areas trustees seek and actually value the most. However, such advice would have to be delivered on terms set by the trustee, meaning product selling or moves to overhaul their investment strategy would be seen as a negative.

Scaled advice therefore provides financial planners an opportunity to engage trustees on specific issues, build trust and rapport and is also cost effective. Where this succeeds, it then opens a gateway to broader and longer term advice.

While trustees will continue to drive asset allocation decisions, financial planners should focus on acting as a coaches and providing guidance. This would not only mean greater diversification of trustees portfolios but also allow trustees to build portfolios best suited to meet their retirement goals.



# Appendices

## Trustee research

Gender	
	Percent
Female	40.4
Male	59.6
Total	100.0

Age	
	Percent
21 - 30	8.3
31 - 40	15.0
41 - 50	20.7
51 - 60	26.8
Above 60	29.3
Total	100.0

Occupation	
	Percent
Professionals	27.6
Managers and administrators	18.4
Clerical, sales and service workers	16.6
Small business owner	6.9
Associate professionals	6.7
Executive	5.0
Other	4.0
Director	3.4
Tradespersons and related worker	3.1
Homemaker	2.6
Labourers and related workers	1.9
Production and transport workers	1.8
Contractor	1.1
Primary producer	1.0
Total	100.0

Household Income	
	Percent
\$50,000 or less	18.4
\$50,001 to \$75,000	15.9
\$75,001 to \$100,000	16.6
\$100,001 to \$125,000	13.7
\$125,001 to \$150,000	10.4
\$150,001 to \$200,000	13.2
\$200,001 to \$250,000	5.4
\$250,001 to \$350,000	3.5
\$350,001 or more	3.0
Total	100.0

State/Territory	
	Percent
NSW	30.1
VIC	26.8
QLD	16.9
SA	10.0
WA	9.7
ACT	3.2
TAS	2.5
NT	0.8
Total	100.0

Area	
	Percent
The capital city of my state / territory	70.0
A regional centre	20.8
A rural area	9.2
Total	100.0

## Trustee research (Cont)

Employment Status	
	Percent
Other	30.9
Retired	20.4
Executive	17.4
Small business owner	12.5
Contractor	8.0
Non employed at present	7.8
Primary producer	3.1
Total	100.0

Education	
	Percent
Primary	0.5
Part of high school	7.0
Completed high school	13.4
Diploma or certificate qualification (inc Trades)	27.2
Degree qualification	27.2
Postgraduate qualification	22.6
Total	100.0

Investment Portfolio	
	Percent
I have no investments	11.2
\$50,000 or less	8.2
\$50,001 to \$150,000	10.9
\$150,001 to \$250,000	7.0
\$250,001 to \$350,000	7.0
\$350,001 to \$450,000	6.9
\$450,001 to \$550,000	8.0
\$550,001 to \$650,000	5.7
\$650,001 to \$750,000	4.9
\$750,001 to \$1 million	10.4
More than \$1 million to \$3 million	15.5
More than \$3 million to \$5 million	2.6
More than \$5 million	1.8
Total	100.0

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## Adviser research

Gender	
	Percent
Female	22.7
Male	77.3
Total	100.0

State/Territory	
	Percent
NSW	34.1
VIC	25.9
QLD	18.8
WA	8.6
SA	9.6
ACT	1.0
TAS	1.7
NT	0.2
Total	100.0

Area	
	Percent
10 years or less	26.7
10 - 20 years	43.1
20 - 30 years	24.6
More than 30 years	5.6
Overall	100.0



## CORE DATA

CoreData is a Sydney-based market research and consultancy firm, specialising in financial services research. Founded in 2002 to bridge the gap between high-quality market intelligence and insight, the group provides research and consulting solutions to financial services companies in Australia, China and the United Kingdom.

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