

Efficiency and Competitiveness of the Australian Superannuation System

Submission to Productivity Commission Inquiry

Introduction

Our Self Managed Superannuation Fund (SMSF) was established in February 2003 with four family members as trustees. At that time, the ages of the members were 57, 56, 25 and 22 and the initial fund size as at 30 June 2003 was \$122,000 covering accumulation accounts for the two eldest trustees.

A restriction was that an SMSF is limited to four member/trustees. Our preference was, and is, that a fifth family member, then aged 28, be able to join the fund.

Two members were nearing the end of their working lives, the third member had been in employment for several years and fourth member was still at university but working part time and contributing to super.

Currently, two members are in retirement and two members are employed and contributing to super.

Reasons for Establishment of an SMSF

In 2003, the two SMSF members in their fifties had been contemplating the financial aspects of retirement for several years and in doing so advice from financial planners had been regularly sought. One member had left Government employment at the end of 2001 and was receiving a small Commonwealth Superannuation Scheme (CSS) pension and the second member was still working for the Commonwealth and a member of the Public Sector Super Scheme (PSS).

The advice of a financial planner to establish an SMSF was accepted and with the support of this firm, the fund was established and commenced operations. A decision was taken at that time to engage this financial planner to provide SMSF accountancy and advice services on an ongoing basis.

The reasons for the establishment of an SMSF included:

- A lack of visibility in the actual investments then being pursued via retail superannuation funds and lack of visibility on what the fees being paid actually covered.
- A desire to exercise more control over investment decisions as we began to focus more on gathering savings to support members in retirement.
- The ready availability of professional investment, governance and accountancy advice in the market place at a reasonable cost.
- A willingness to learn more about investing and to devote the time required to become more competent in financial affairs.
- The ready availability of publications, articles, seminars and the like from the ATO, our financial advisor, the financial press, shareholder organisations and online newsletters.

- An objective to consolidate individual superannuation accounts into one place, thus streamlining operations and saving fees.

Experience to date

The superannuation planning and investment advice provided by our financial advisor as the two members approached retirement and now in retirement has proved to be extremely significant and useful. Despite continuous and still ongoing changes to the superannuation system by Government over the years, we have been able to explore, learn about and implement as required a range of investment strategies easing the transition markedly.

We are also satisfied that the members still in accumulation phase are being well supported and are well placed to add more value as trustees as the fund progresses and matures.

The political instability over superannuation remains a key concern and is extremely upsetting for all members. The constant major changes, tinkering and political posturing remains a concern for SMSF trustees in both accumulation and retirement phases.

Experience with investments was very mixed in the earlier days of the fund, particularly over the period of the Great Financial Crisis (GFC) and beyond. But as trustees have gained more experience, investment performance has improved and is now very satisfactory. The financial advisor did provide advice during the GFC period which we found to be mixed; some useful some not. As trustees have gained further experience, we have increasingly been making our own investment decisions. We can now decide whether to progress investment decisions via our financial advisor or via our online broking account. Both forms are not expensive.

We note that regardless of what form superannuation investments take, whether via industry/retail funds or within an SMSF, investment decisions ultimately rest with the investor/trustee. Whilst a financial advisor can advise, he/she is not ultimately responsible, you are. Our experience with going down the SMSF route is that accountability for outcomes is easier to accept.

Fund asset allocations have been constantly evolving based on our financial advice received and as our experience has evolved. We have been measuring fund performance on an annual basis since 2004/5 and, based on publicly available data and making allowance for trying to compare an individual SMSF against retail and industry funds, investment performance is arguably superior to industry/retail funds and costs are less and easier to see. Our conclusion is that an SMSF is a very efficient means of managing super.

As opportunities have arisen we have been quickly able to make both strategy decisions due to any Government changes and investment decisions that may come along. By using a combination of data provided by the financial advisor and our own investment tracking systems we are able to constantly monitor our portfolio and its performance.

Obviously there is effort required to constantly keep up with legislation proposal and changes, to keep up to date with political, financial and economic changes and to administer investing outcomes. On a conservative basis this effort requires at least two days each week to remain fully effective. And this cost is largely absorbed by the two retired trustees and not directly costed.

The cost of purchasing investment advice on a fee for service basis and annual accountancy support on a priced basis is considered reasonable, representing approximately 0.3% of funds under

management. As the fund size grows and fees remain relatively constant, then, as a percentage of funds, the cost reduces. But in effect, the retired members are unpaid workers. Some consolidation of administrative fees over the four members achieves some small savings when compared to the alternative of retail or industry super.

Ongoing education via seminars and newsletters is available from our financial advisor and much appreciated. This is complimented by readily available newsletters from fund managers, newspapers and other providers in the market place. There is no shortage of educational and investment material available.

It is difficult to draw any comparisons between our SMSF experience and what might have transpired if we had remained with other super providers. But we might reasonably conclude that using an SMSF provides far more visibility on investment decisions and outcomes whilst achieving a degree of cost savings. In our experience, an SMSF is more competitive than other super options.

From a Government perspective, neither of the two member/trustees in retirement are ever likely to require a Government pension and our aim remains for the two members in accumulation to be able to retire and fully fund their day to day retirement income needs as well.

Further observations

1. We do not understand why an SMSF is limited to just four member/trustees. Whilst there is a point where an smsf could almost reach '*retail*' status in size and potentially generating any number of management, investing, compliance and cost complexities, there should be some additional flexibility to account for say, direct family members. Additional flexibility in SMSF trustee numbers would make the system more efficient. In our case we had to reluctantly cut one family member from our fund plans.

Obviously, as the two retired members pass on, there will be potential to bring new members in, But at this time, this limitation means super '*system*' inefficiency for us.

2. One of our members at one time worked for the Commonwealth Government and was a member of the PSS. Her superannuation benefits were preserved when she left Government employment for the private sector. At present, legislation does not allow her to roll over her PSS super into her SMSF. The reasons for this are unclear but this is obviously inefficient. She needs to monitor two funds with two different outcomes and pay two different fees.

On an investment performance basis her PSS outcomes are far inferior to that being achieved by the SMSF, meaning this member will have a less than optimal outcome at eventual retirement.

3. Clearly an individual SMSF is unable to generate economies of scale and invest in significant assets including infrastructure. Individual fund size is just too small. There are no products available either via Government or in the market place to use SMSF wealth on an aggregated basis. Given that the SMSF sector is the largest in value then the nation lacks an important ability to tap into SMSF funds for Government projects. On the other hand, SMSFs cannot directly invest in these large projects and, say, generate a secure stream of income to support retired members.

Given the aggregate size of the SMSF sector, then Australia is missing what could be a win/win investment scenario.

Conclusions

Establishing an SMSF was a key work and retirement decision. Through education, financial support and experience we have been able to successfully transition two members from work into retirement without a need for government pension support and we have been able to establish a capability to transition from late stage retirement, exit from superannuation and to enable the fund to continue if and as required.

An SMSF is more than competitive with both industry and retail superannuation regimes generating better and clearer investment outcomes for less cost.

The set up, running and governance maintenance does take additional member/trustee time and interest which is not insignificant. We estimate this effort as at least two days per week on an ongoing basis.

But on a cost benefit basis, an SMSF is extremely competitive. Performance outcomes are most probably superior to both industry and retail funds. These outcomes cannot be achieved without good financial advice and support and this is readily available in the market place.

Randall Kingsley
SMSF Trustee

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