



20 December 2013

Public Infrastructure Inquiry
Productivity Commission
LB2 Collins Street East
MELBOURNE VIC 8003
Email: infrastructure@pc.gov.au

Dear Madam/Sir,

**SMSF PROFESSIONALS' ASSOCIATION OF AUSTRALIA RESPONSE TO THE
PRODUCTIVITY COMMISSION PUBLIC INFRASTRUCTURE INQUIRY**

The SMSF Professionals' Association of Australia (SPAA) welcomes the opportunity to provide a submission to the Productivity Commission's Public Infrastructure Inquiry. SPAA's key interest in the Inquiry is related to the financing mechanisms for major infrastructure projects and the role that self-managed superannuation funds (SMSFs) could play in this area.

Currently, SMSFs are precluded from directly investing in major infrastructure projects because of the size and long-term commitment of the investment required to finance infrastructure directly. As SMSFs currently hold approximately one third of superannuation assets, we believe that SMSFs are an unutilised source of infrastructure financing.

SMSF investment in infrastructure projects would open a new source of infrastructure funding to governments and private entities. We believe that SMSF trustees have an appetite for low risk, low volatility investments, especially those approaching or in the retirement phase. SMSF access to infrastructure investments would also allow for a more productive and efficient use of SMSF capital which is currently available to SMSF trustees.

We have provided further information on SMSF asset holdings and the suitability of infrastructure investments in the attachment.

While SPAA does not advocate any specific product design or approach to allow SMSFs to access infrastructure investment, we believe that the SMSF held savings pool should be considered by the Productivity Commission in this Inquiry and also by the Financial System Inquiry led by Mr David Murray AO in 2014.

About SPAA

SPAA is the peak professional body representing the SMSF sector throughout Australia. SPAA represents professionals, irrespective of their personal membership and professional affiliations, who provide advice to individuals aspiring to higher levels of participation in the management of their superannuation savings. Membership of SPAA is principally accountants, auditors, lawyers, financial planners and other professionals such as actuaries.

SPAA is committed to raising the standard of professional advice and conduct in the SMSF sector by working proactively with Government and the industry. In doing so, SPAA has contributed to SMSF advisors providing a higher standard of advice to SMSF trustees. This in turn has enabled trustees to make more informed decisions addressing the adequacy, sustainability and longevity of their own retirement savings. SMSFs offer trustees greater control and flexibility and have become an integral part of the Australian Superannuation landscape by providing significant and viable options for managers, business owners, executives and retail operators alike.

We would be happy to provide further information or to discuss any questions you may have about this submission with you.

Yours sincerely,



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SMSFS AND INFRASTRUCTURE INVESTMENTS

SMSF capital pool

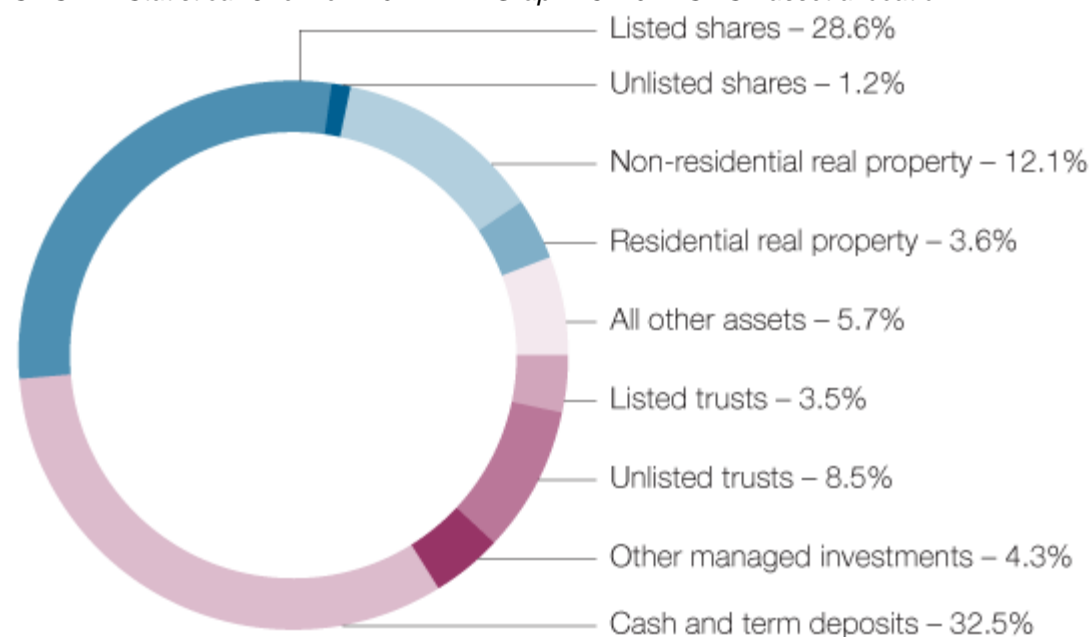
SMSFs hold an estimated \$531.5 billion of assets of the \$1.72 trillion superannuation sector as of 30 September 2013.¹ The \$531.5 billion of assets are held by 516,925 SMSFs.² With the superannuation sector forecast to have total superannuation increasing steadily to \$7.6 trillion by 2033, SMSF asset holdings are projected to increase to \$2.23 trillion over that time.³

We believe that the sheer size of assets currently held by SMSFs and the growth of these asset holdings over the next 20 years will mean that SMSFs will offer a viable funding source for major infrastructure investments. A \$2.23 trillion capital pool should not be ignored when considering solutions to infrastructure financing.

SMSF asset allocation and appetite for infrastructure investments

The recent ATO *SMSFs: A Statistical Overview 2011-12* showed that SMSFs on average hold 32.5% of their assets in cash and term deposit products.

SMSF: A Statistical Overview 2011-12 – Graph 13: 2012 SMSF asset allocation



¹ APRA, Quarterly Superannuation Performance (interim edition) September 2013 2013
<http://www.apra.gov.au/Super/Publications/Documents/September%202013%20Quarterly%20Superannuation%20Publication.pdf>

² Ibid

³ Deloitte, Dynamics of the Australian Superannuation System: The next 20 years: 2013 – 2033
http://www.deloitte.com/assets/Dcom-Australia/Local%20Assets/Documents/Industries/Financial%20services/Deloitte_Dynamics_of_Superannuation_2013_report.pdf

97.47% of SMSFs hold cash and term deposit products, with a median value of \$117,129.⁴

We believe that this predisposition for SMSFs to hold close to one third of their assets, or a current aggregate of \$172 billion, in low-risk assets means that SMSFs would have an appetite for infrastructure investment. Further, with SMSFs predicted to grow to asset holdings of \$2.23 trillion by 2033, this low risk capital pool will grow to approximately \$725 billion. This large pool of low-risk preferred capital would be a viable source of infrastructure funding in years to come.

SMSF trustees seek flexibility and control in the investment of their retirement savings, with most trustees preferring direct investment. The SPAA/Russell Investments 2013 Intimate with SMSFs Report showed that 77.8% of SMSF trustees prefer direct investment over managed funds.⁵ Also, the Report showed that 10% of trustees with assets in cash and term deposits were looking to invest in higher quality low risk products.⁶

We believe that the desire for control, direct investments, and alternatives to cash and term deposits will mean that SMSF trustees will view direct infrastructure investments as an attractive investment option. Infrastructure investments act as an important investment class that offers a risk-return point between cash/fixed interest and equity investments.

An asset class with this risk-return profile will be especially attractive to SMSF trustees that are approaching or in the retirement phase and are drawing an income stream from investments in their SMSF. These trustees are looking to manage longevity risk by accessing long term investment options with low volatility, moderate yield relative to inflation and moderate capital growth. By 2032, it is projected that there will be \$800 billion of SMSF assets in the retirement phase, which will see an increasing demand for investment with stable returns over the next 20 years.⁷

Barriers to SMSF infrastructure investment

Currently SMSFs are extremely limited in investing directly in infrastructure due to the high dollar threshold for infrastructure investment and the long-term “sticky” nature of the required investment. SPAA believes that addressing these issues will provide the most significant challenges in allowing SMSFs to have better opportunities to invest in infrastructure projects. Unitising investment in infrastructure projects to smaller investments for SMSFs (e.g. \$25,000 units) would be one way to overcome current limitations.

⁴ ATO, Self managed Superannuation Funds: A Statistical Overview 2011-12 <http://www.ato.gov.au/Super/Self-managed-super-funds/In-detail/Statistics/Annual-reports/Self-managed-superannuation-funds--A-statistical-overview-2011-2012/?anchor=t15#t15>

⁵ SPAA/Russell Investments, Intimate with SMSFs 2013, p 4

⁶ Ibid

⁷ Deloitte, Dynamics of the Australian Superannuation System: The next 20 years: 2013 – 2033

http://www.deloitte.com/assets/Dcom-Australia/Local%20Assets/Documents/Industries/Financial%20services/Deloitte_Dynamics_of_Superannuation_2013_report.pdf

A productive use of SMSF capital

SMSFs have been criticised for an “overweighting” towards cash and term deposit investments. SPAA does not agree with this criticism and it should be noted that SMSFs have outperformed ARPA-regulated funds between 2008-2012,⁸ we believe that infrastructure investment will allow for a more productive and efficient use of SMSF capital. Allowing SMSF capital to finance infrastructure investments would allow SMSF capital to have more productive and efficient influence on the real economy than as cash or term deposits. Notwithstanding this, SPAA recognises that SMSF deposits are an important stable source of funds for Australian banks, especially in meeting their Basel III required liquidity coverage ratio.

We believe that the importance of efficiently and productively utilising SMSF capital will only increase as the sector grows from its current size of \$532 billion to the projected \$2.33 trillion by 2033 and Australian infrastructure investments should play an important role in achieving this.

⁸ ATO, Self managed Superannuation Funds: A Statistical Overview 2011-12 <http://www.ato.gov.au/Super/Self-managed-super-funds/In-detail/Statistics/Annual-reports/Self-managed-superannuation-funds--A-statistical-overview-2011-2012/?anchor=t15#t15>