# Intimate with Self-Managed Superannuation

## - A snapshot of Trustee findings -

An annual study of Self-Managed Superannuation Funds

Prepared by CoreData for nabtrade and the SMSF Association

## 2015

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

The popularity and awareness of SMSFs remain high as evidenced by the continued growth in the number of funds, the different ages of members starting their funds, both younger and older and the increased focus on trustees becoming engaged and knowledgeable and seeking advice from recognised professionals.

It is with this background that the fifth annual Intimate With Self-Managed Superannuation Report is presented. The report was commissioned by the SMSF Association in conjunction with the National Australia Bank and research undertaken by market consultancy firm CoreData. The research undertaken provides an insight into the fastest growing sector of the superannuation industry and provides an analysis of the SMSF market.

What we see since the previous report is a rise in trustee confidence, due largely to a turnaround in investment performance. 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.

The 2015 report considers the opportunities that exist for advisers and other professionals to assist clients with all aspects of their SMSF. There is a continued move by trustees from the 'do-it myself' culture to a 'help me do it' approach. This highlights the importance of advice and education with clients considering access to investment expertise the key to using a financial adviser.

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

**Andrea Slattery**
Managing Director/Chief Executive Officer
SMSF Association

**Nathan Walsh**
General Manager
nabtrade

## Methodology

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

An online survey was developed and hosted by CoreData following liaison with the SMSF Association.

The survey was conducted from $10^{th}$ November through to $10^{th}$ 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.

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.

## Snapshot

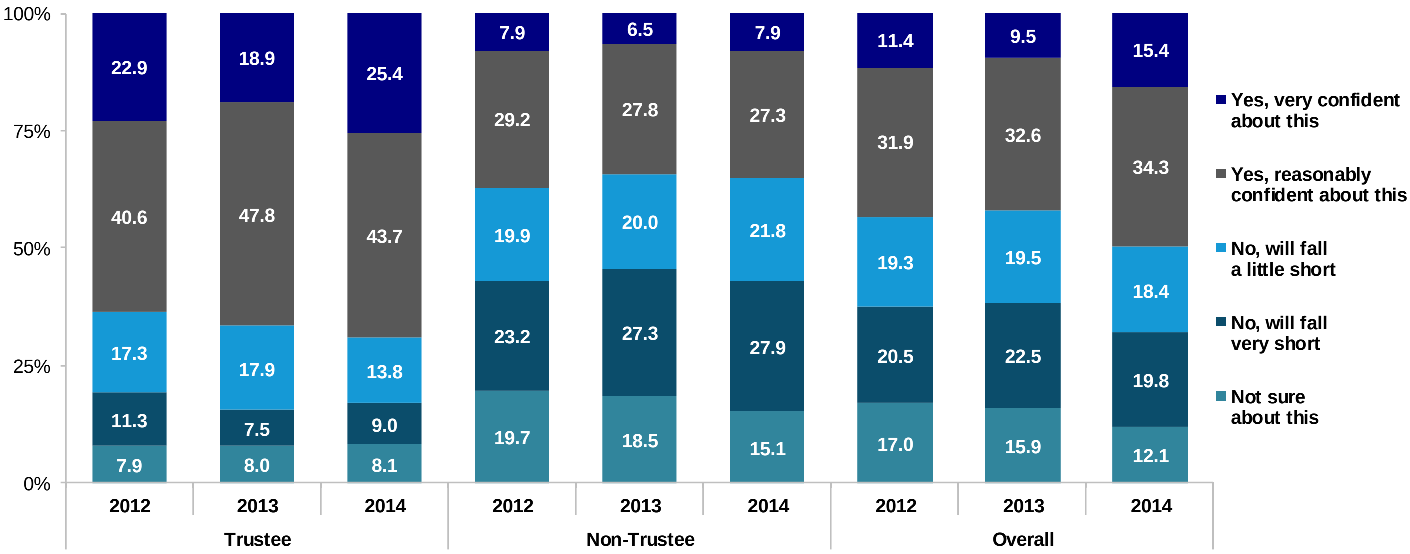
### Growing confidence on retirement needs

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 1 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.

**Figure 1: Do you think you're on track to achieve your target retirement income?**



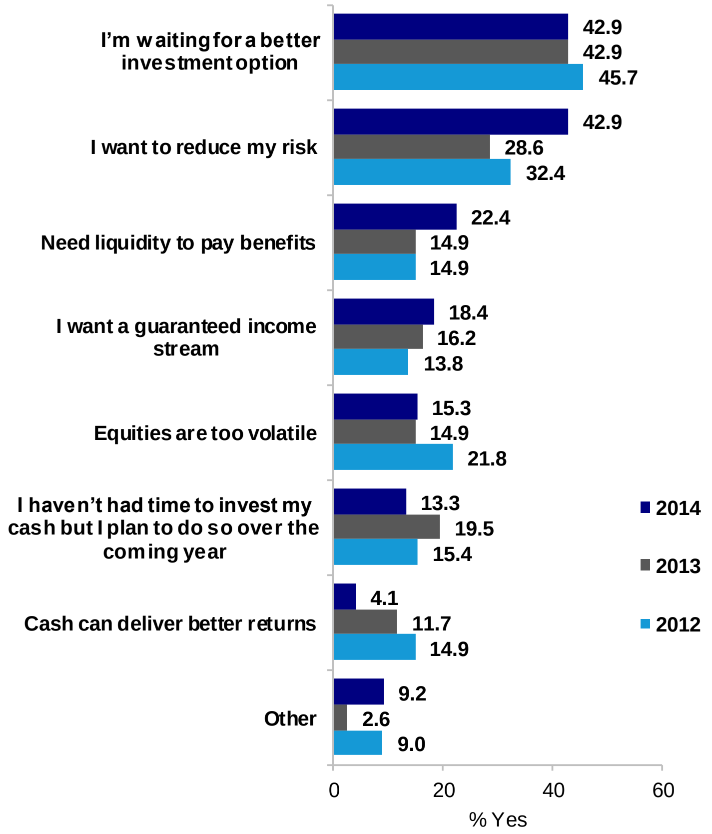

A possible factor behind the retirement confidence gap is that trustees are considerably more likely than non-trustees to be receiving financial advice (52.8% vs. 29.5%). Illustrating the value of financial advice, advised trustees are more likely to be confident that they are on track to achieve their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

### 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 3 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 2: What is the reason for your current allocation to cash in your SMSF?**




*Multiple answers allowed

## 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[1]. 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.

[1] ATO Self-managed super fund statistical report – September 2014

## Low cash rate driving reallocation

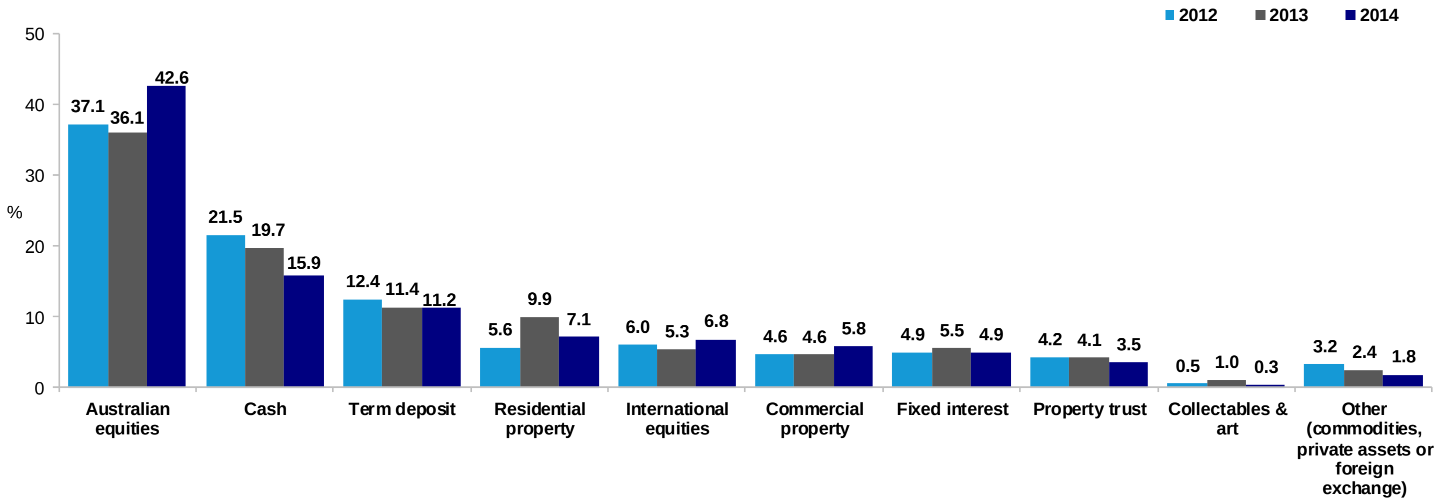
It is clear that the prevailing attitude among trustees is de-risking their SMSF portfolio and that holding a substantial proportion of cash in their portfolio is one way of doing so.

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 4 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%)

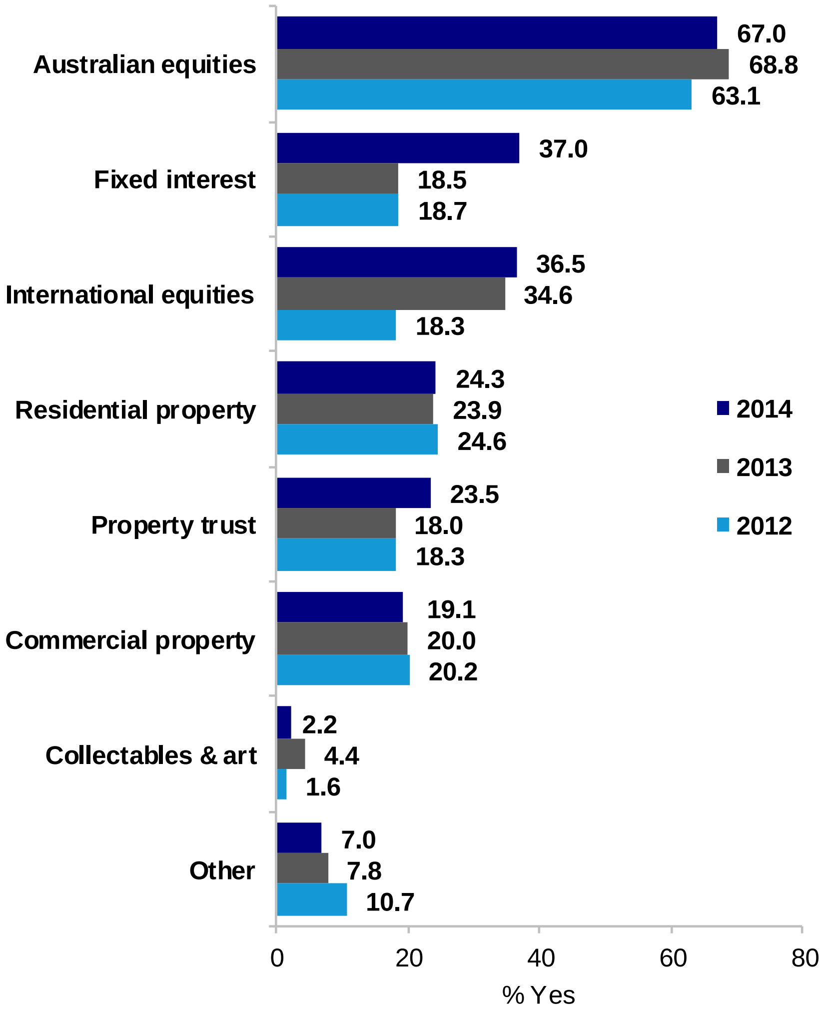
**Figure 3: Please indicate roughly how you have allocated your SMSF assets between the following areas.**




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 4, 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 4: Which other investment alternatives are you likely to look at?**




*Multiple answers allowed

Trustees recognise that holding cash is one way to de-risk their SMSF portfolio. However, they are also seeking to move funds out 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.

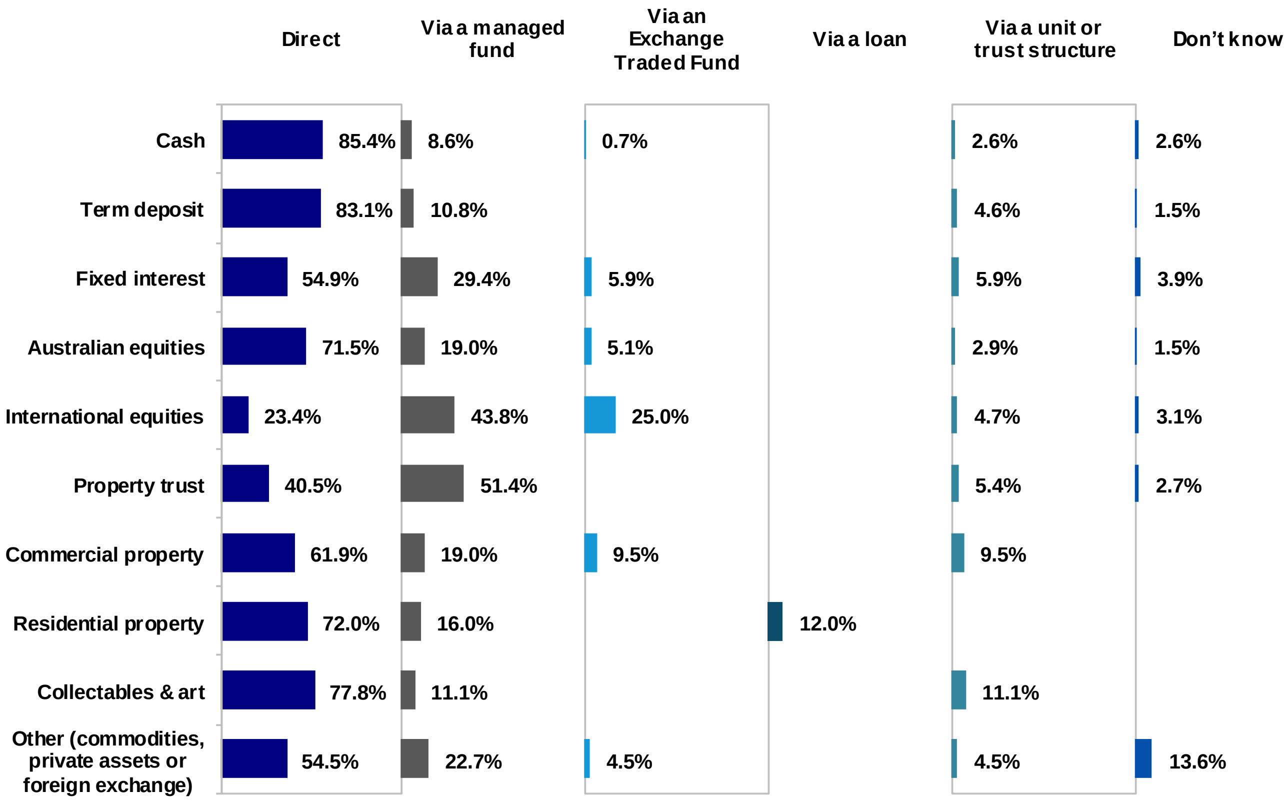
## Bias towards direct investment

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 5 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 5: 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 considering the introduction of a direct investment option (DIO) that allows members to invest their super directly in such assets as equities and term deposits.

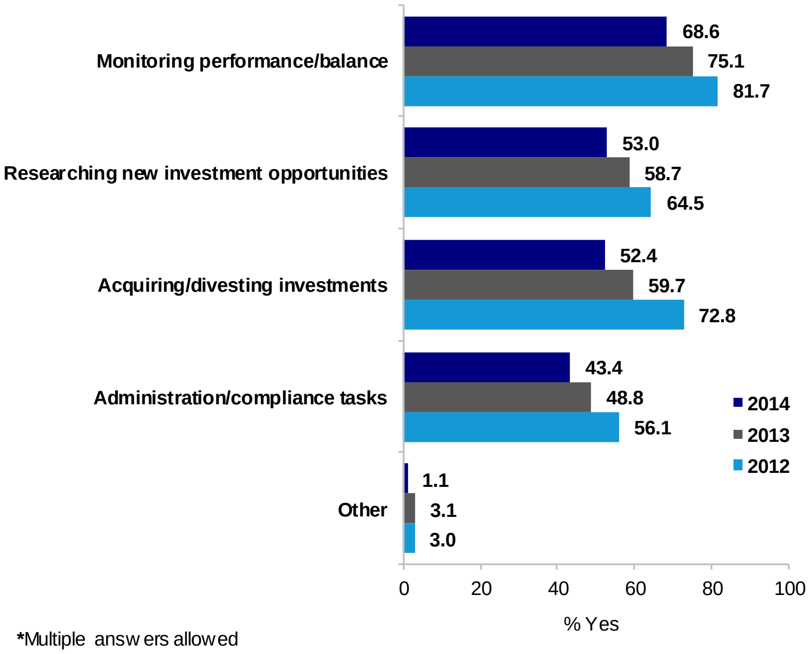
While only one in five (19.9%) non-trustees are already invested in a DIO within their fund, more than two in five (41.4%) would be interested in investing in one, suggesting that DIOs are a key part of the retention tool set for APRA funds when it comes to preventing members from setting up an SMSF.

### Trustees increasingly 'hands off'

Compared to previous years, although most trustees remain involved in managing their own super, fewer are personally involved across all tasks related to their SMSF as trustees 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?**




*Multiple answers allowed

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 them has helped them in running their SMSF, despite the time constraints and other challenges that 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 themselves, 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 their 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%).

Male trustees are considerably more likely than female trustees to make all financial decisions regarding their SMSF themselves (46.2% vs. 25.9%), as are younger trustees, likely due to the fact that they are less likely to have a financial adviser. The majority (54.8%) of Generation Y trustees usually make all the financial decisions about their SMSF themselves, compared to 40.2% of Generation X trustees, 34.4% of Baby Boomer trustees and 39.4% of Pre-Boomer trustees.

## Demographics:

| 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% |

| 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% |

| 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 | 31.1% |

| 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% |

| 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% |