Intimate with Self-Managed Superannuation

An annual study of Self-Managed Superannuation Funds

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

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

Snapshot

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[1].

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

[1] 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[2].

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.

[2] ATO Self-managed superannuation funds: A statistical overview 2012-2013 – December 2014

Methodology

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

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)[3].

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.

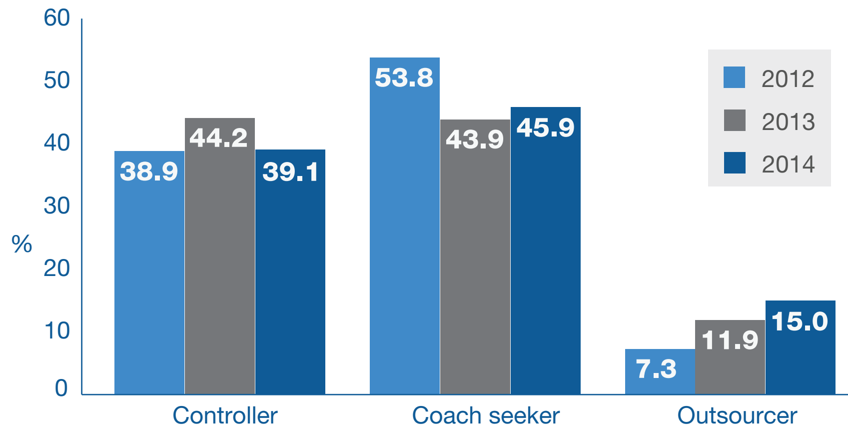
'Coach seekers' make up about 50% of the broader Australian population and are defined as those who would rather do things themselves, but need information to support their decisions or are looking for someone to help them.

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.

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

Figure 1 – Trustee behavioural segments



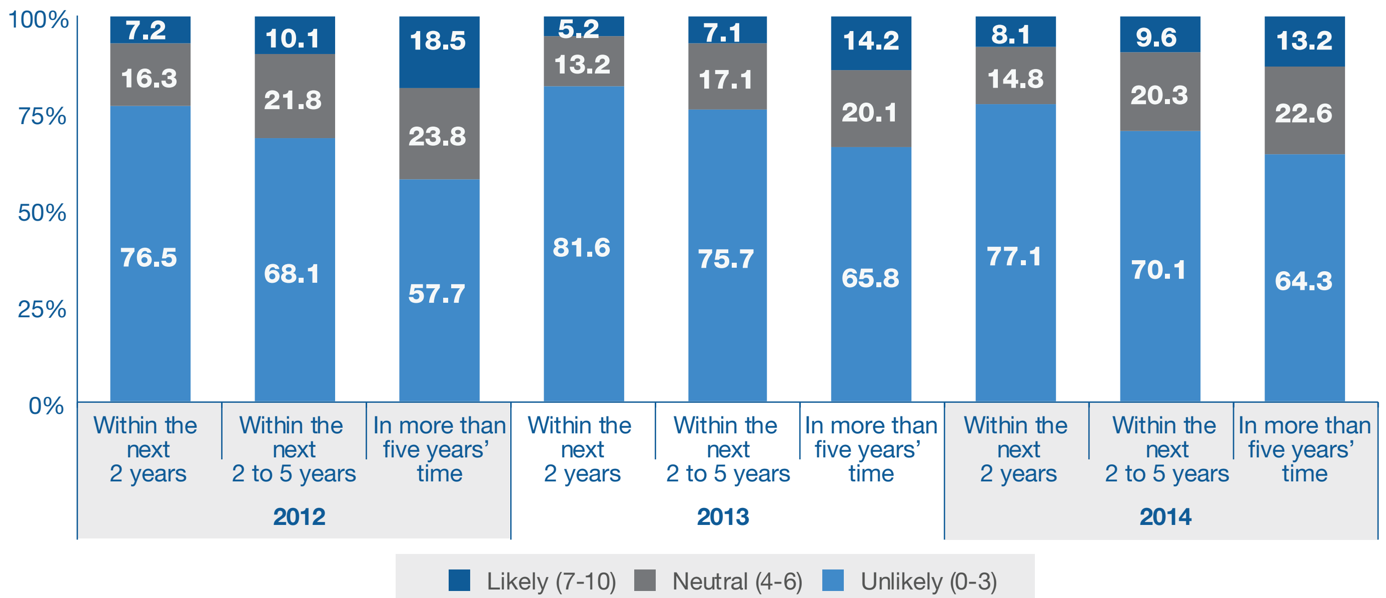
This shift in behavioural profile is likely to lead to greater opportunity for advisers servicing the SMSF sector, given coach seekers and outsourcers are typically looking for guidance and are willing to delegate the decision making to a much greater extent than controllers, many of whom are closed 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[4].

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.

[4] 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).

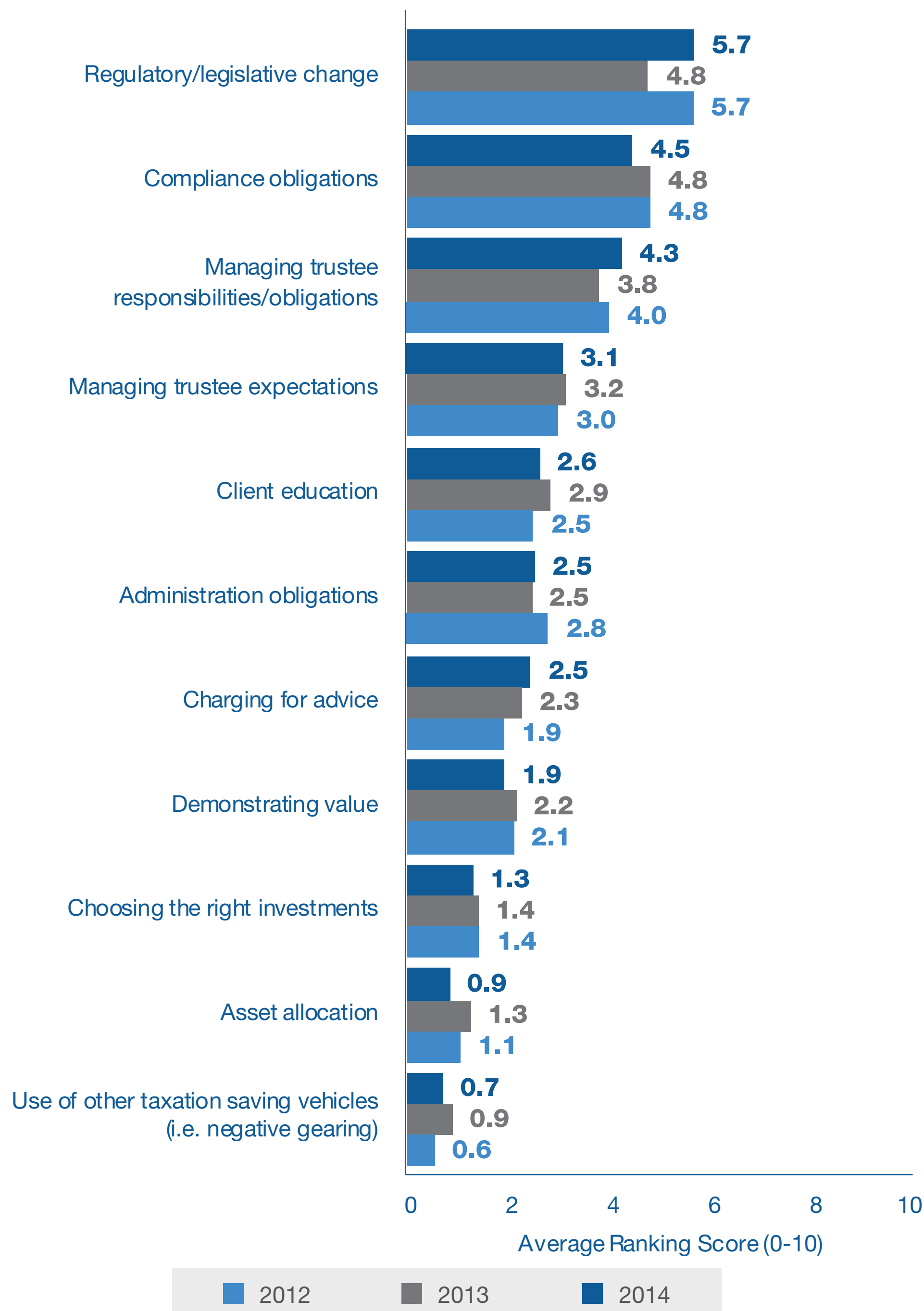
Furthermore, advisers continue to see referrals and recommendations as crucial channels in acquiring new SMSF clients. Compared to 2013, advisers are more likely to have sourced SMSF clients from client referrals (83.8% vs. 72.1%).

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[5] 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[6] 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.

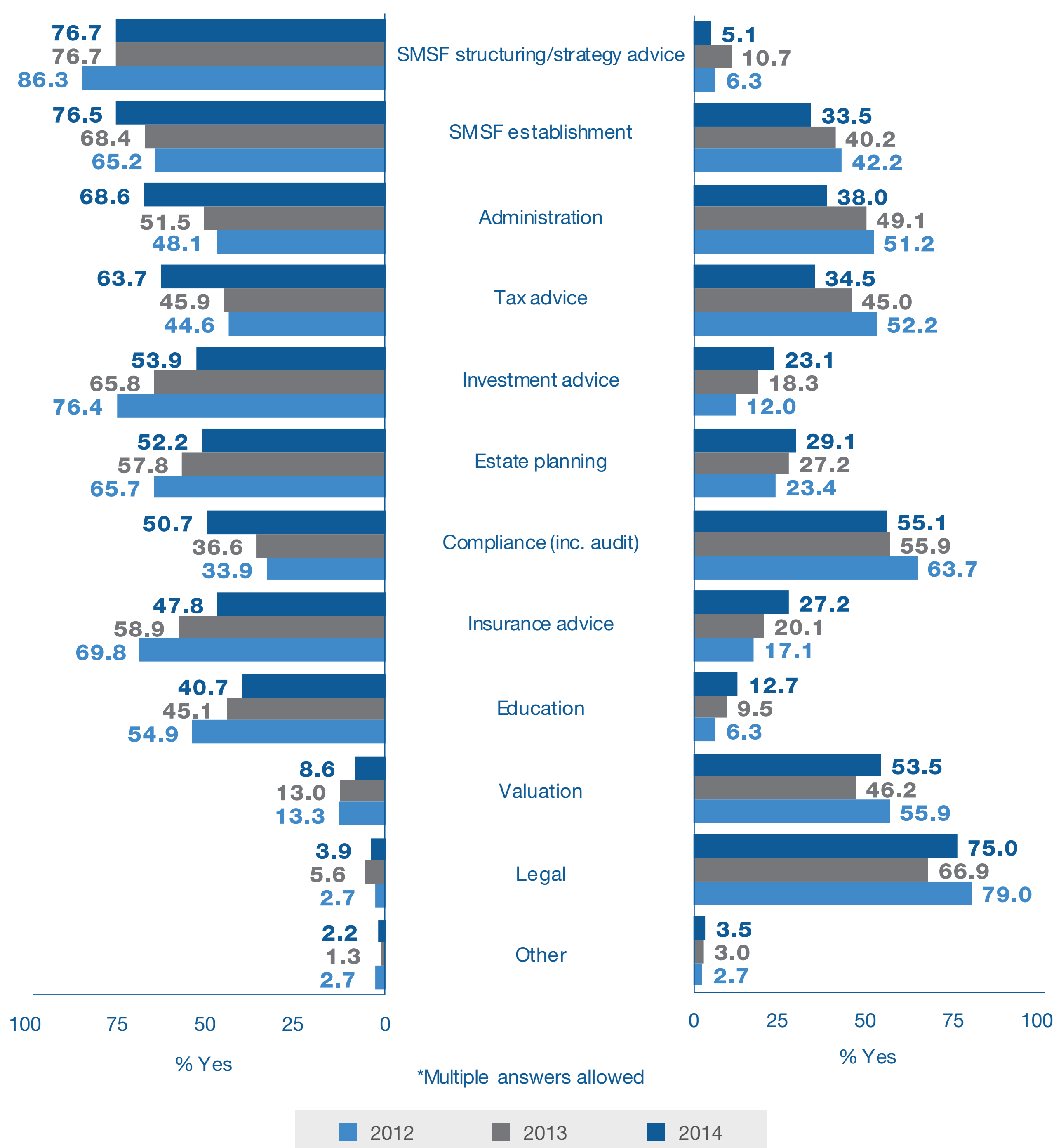
[5] CoreData Keys to Growth Report 2014
[6] CoreData Adviser Business Efficiency Report 2014

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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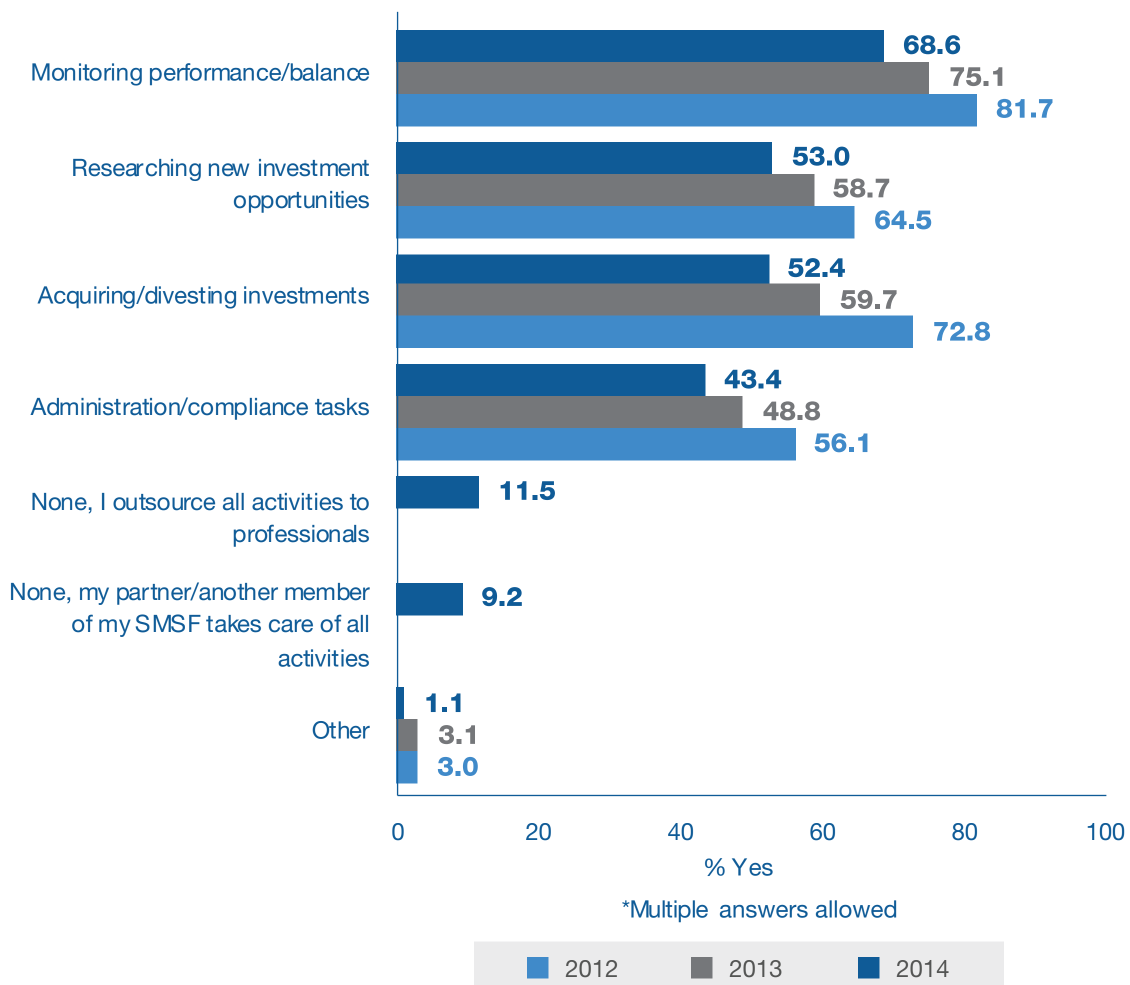
Knowledge is power

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 takes care of the written strategy (42.9% vs. 21.1%).

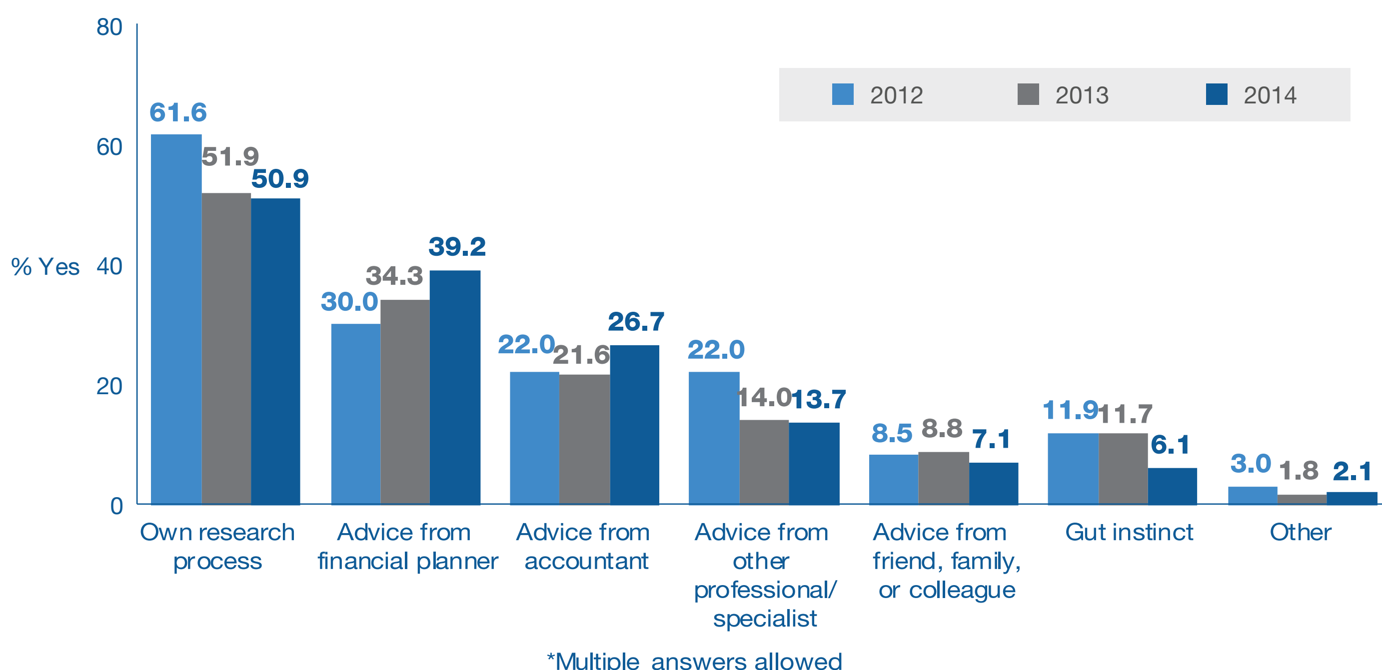
However, close to one in five (17.5%) trustees could be exposing themselves to investment and legal risks by not having an investment strategy or by only having it memorised rather than written down. More than one in four trustees could also be exposed to further investment risks by not having clear 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?



*Multiple answers allowed

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.

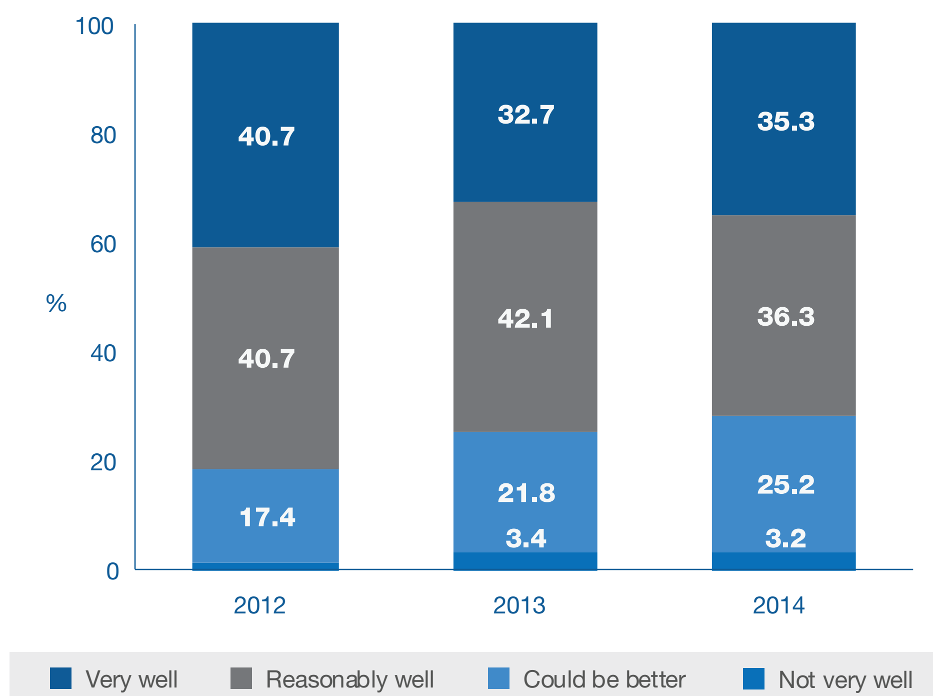
Unfortunately, understanding of trustee roles and responsibilities has been marginally declining in recent years, potentially due to a greater propensity to rely on a professional. Figure 8 shows that while the large majority of trustees understand their roles and responsibilities reasonably or very 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[7].

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

[7] 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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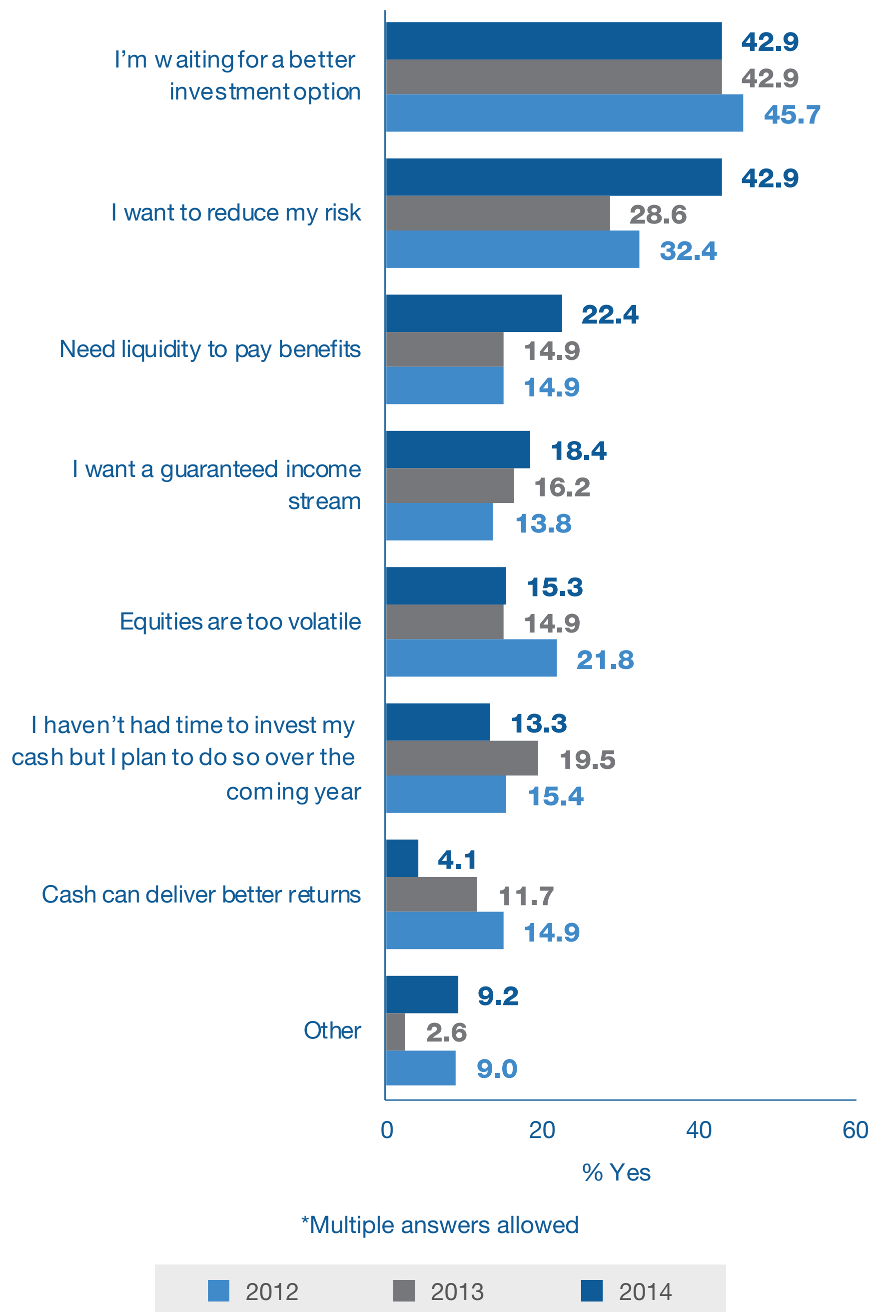
Risk and return re-assessed

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[8]. 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.

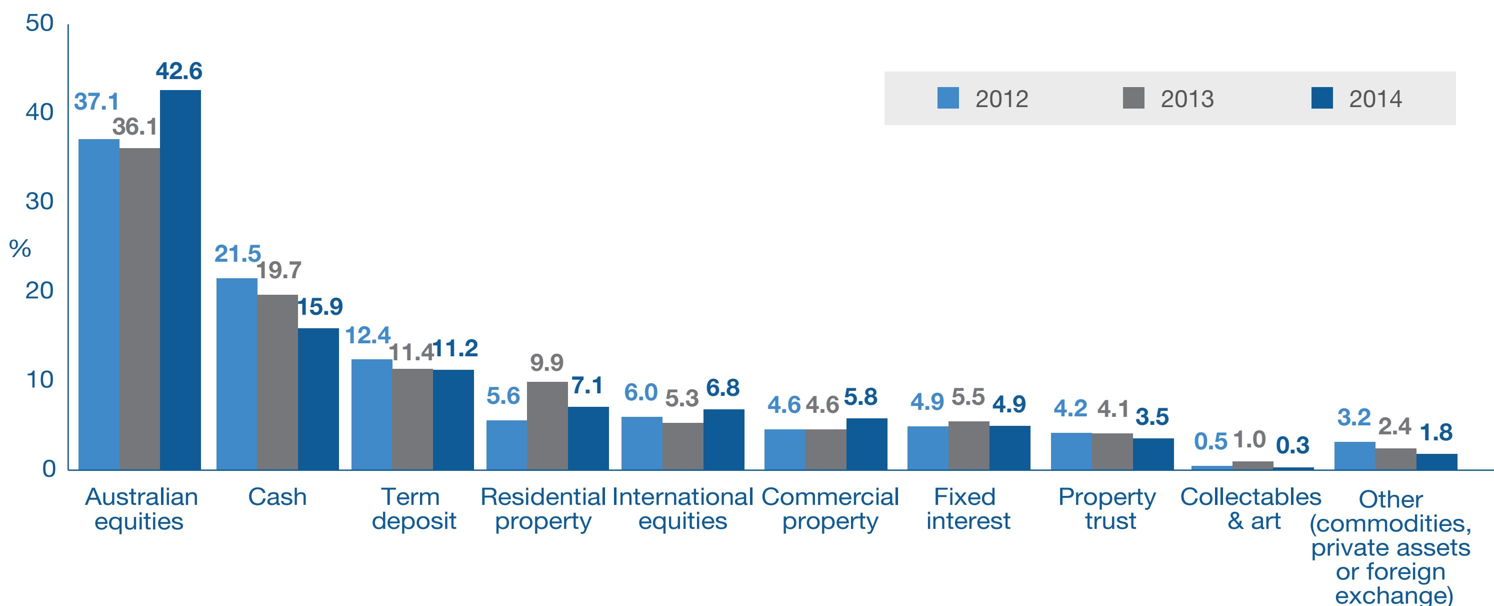
Low cash rate driving reallocation
It is clear that the prevailing attitude among trustees is de-risking their SMSF portfolio and that holding a substantial proportion of cash in their portfolio is one way of doing so.

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.

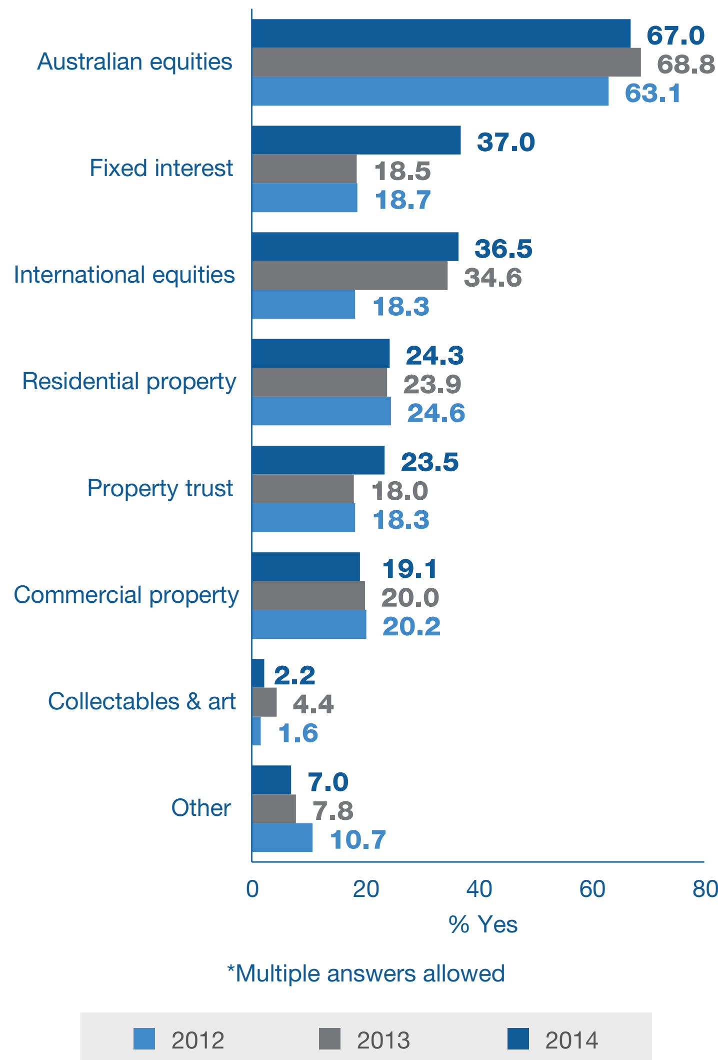


[8] ATO Self-managed super fund statistical report – September 2014

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.

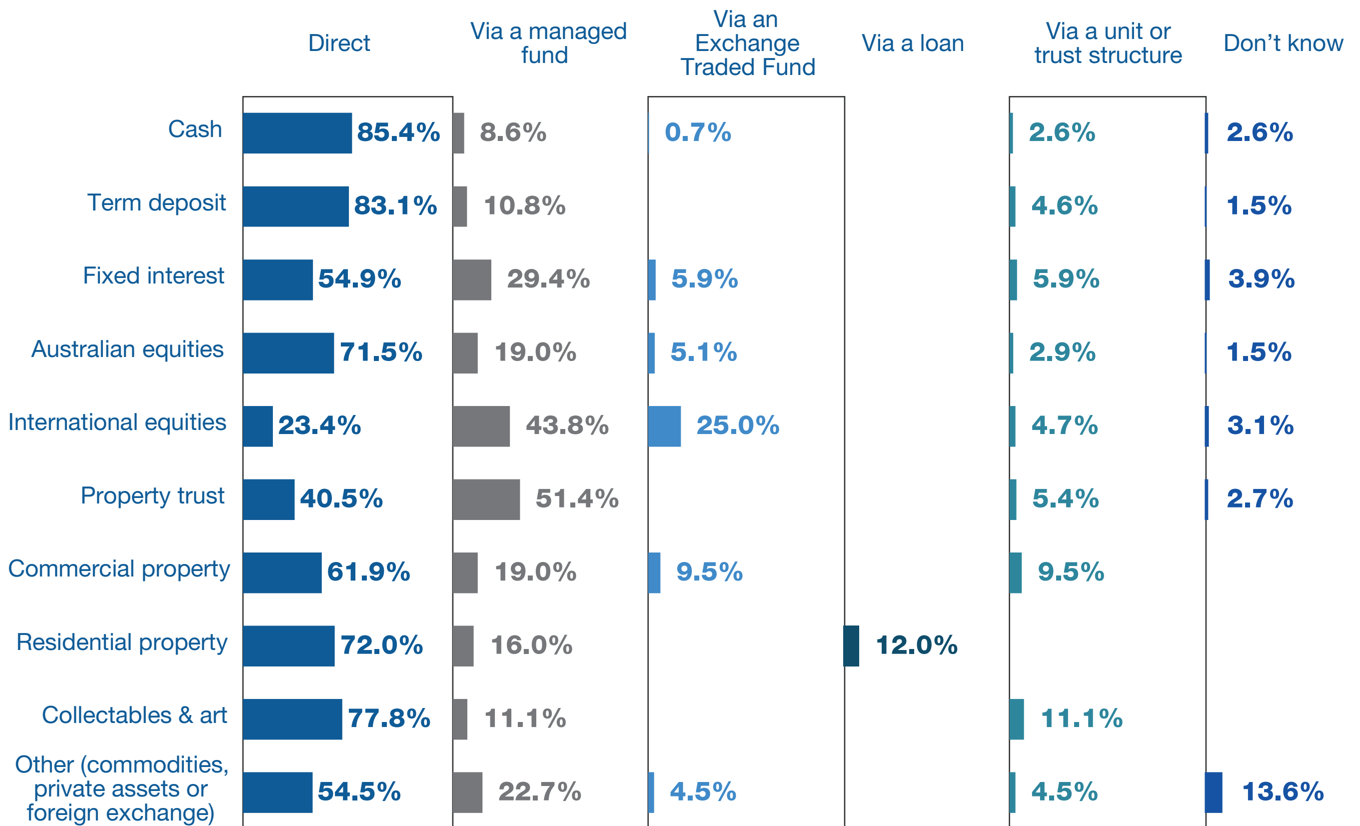
Figure 10 earlier in the report reveals that trustees on average allocate just 0.3% of their portfolio to art and collectibles, down from 1.0% in 2013.

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.

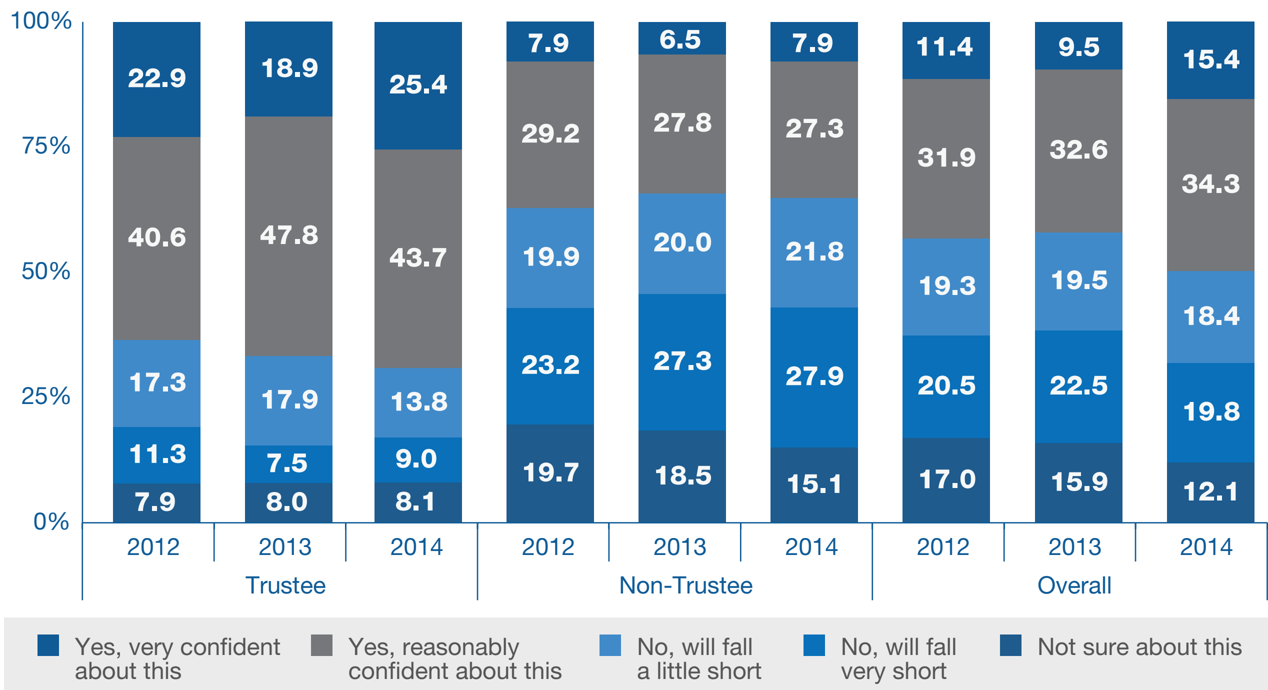
On average, trustees who have not retired think that they will need $1,838 per week to achieve their desired lifestyle in retirement, up from $1,611 in 2013. On the other hand, non-trustee pre-retirees anticipate needing $1,555 per week, up from $1,192 in 2013.

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%).

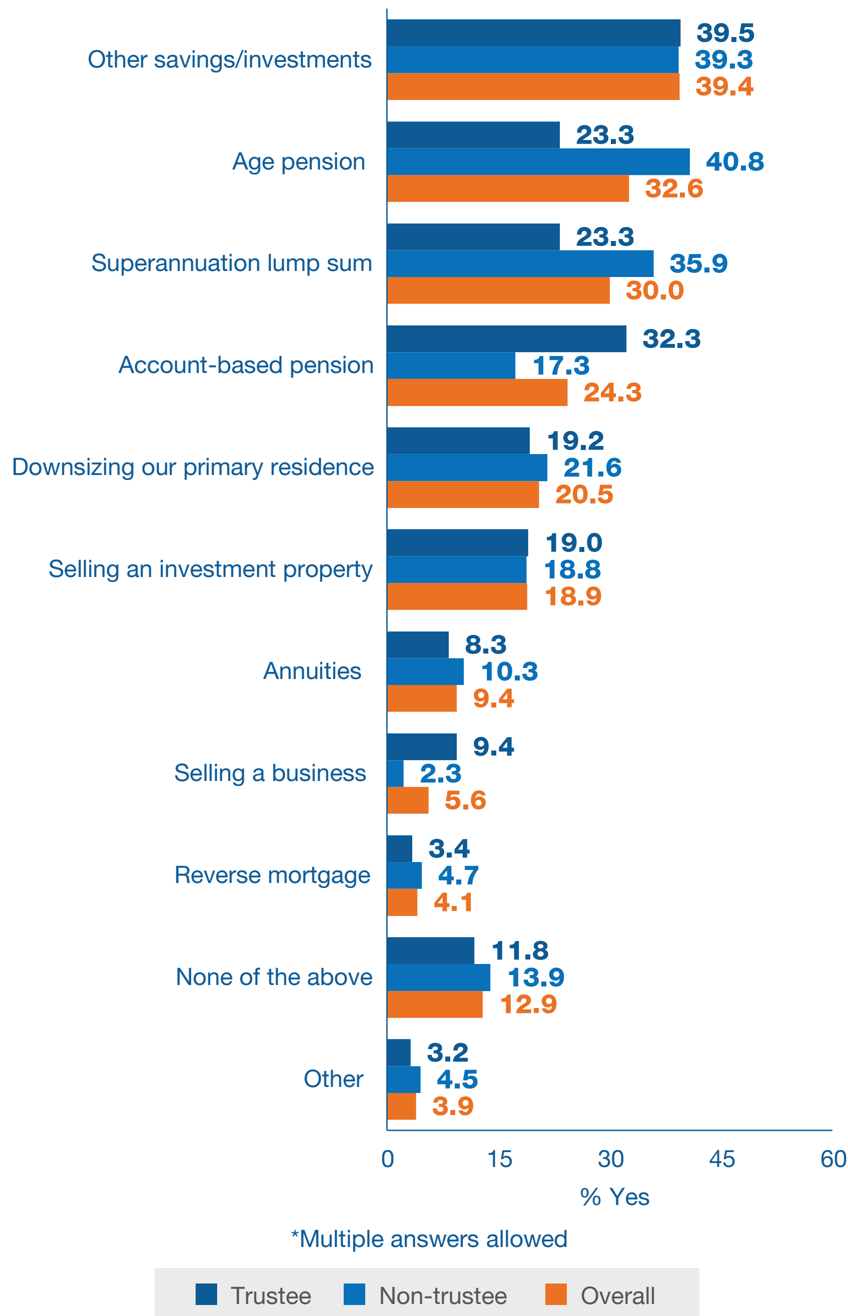
Figure 13 – Do you think you're on track to achieve your target retirement income?



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.

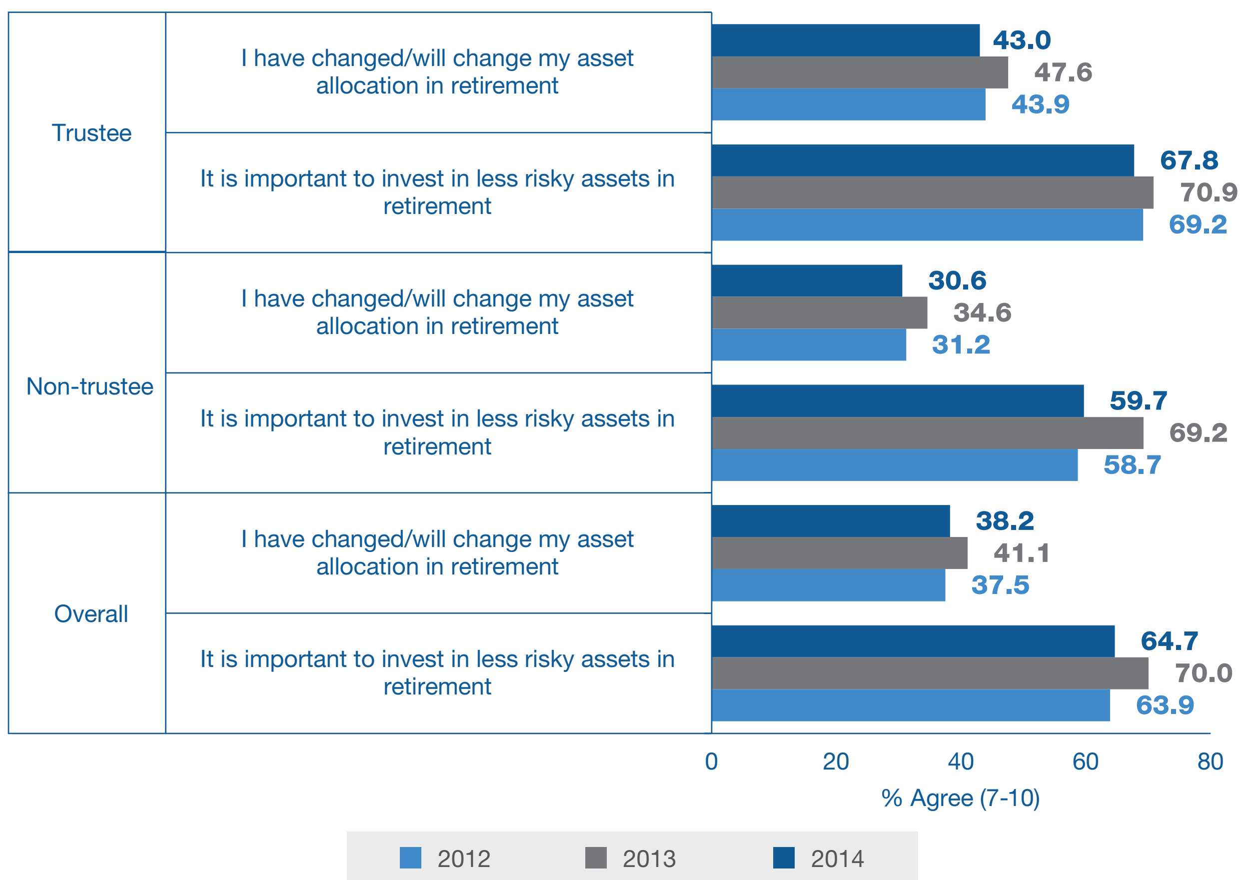
The shift from the accumulation phase to decumulation is arguably the most transformational change confronting the SMSF sector and the broader superannuation industry over the next decade. The battle for growth will revolve around post-retirement products and services that provide members with the best 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[9].

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.

[9] ATO Self-managed superannuation funds: A statistical overview 2012-2013 – December 2014

Conclusion

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%

TAKE THE NEXT STEP IN YOUR SMSF CAREER JOURNEY

1 JOIN THE SMSF ASSOCIATION
ASSOCIATE MEMBERSHIP

CPD COMPASS Online quiz that recommends focus areas for CPD activities.
CPD HUB Find the right CPD solutions from SMSF Association Accredited providers.
NEWS & RESOURCES Keep up to date with the latest industry info & insights.
MEMBER FORUM Connect with multi-disciplinary professionals online.

BECOME AN ACCREDITED SMSF PRACTITIONER
Verify your foundation SMSF knowledge and earn your SSP™ designation by successfully completing a 1 hour online exam within 2 attempts.

2 ENROL IN THE SSA™ PATHWAY PROGRAM
SMSF SPECIALIST ACCREDITATION (12 WEEK PROGRAM)

DIAGNOSTIC 50 minute online quiz based on SSA exam questions.
REVISION Six self-study modules mapped to your diagnostic results.
TUTORIAL Technical Specialist available to answer all your questions.
EXAM Sit the 2 hour online SSA™ exam and pass within 2 attempts.

3 YOU'RE AN ACCREDITED SMSF SPECIALIST
SMSF ASSOCIATION SMSF SPECIALIST ADVISOR™ (SSA™)

BRANDING Specialist logo, designation & post-nominals.
FIND A SPECIALIST Profile listing on the Association website.
PI INSURANCE Discount available from our endorsed provider.
TAX AGENT REGISTRATION Streamlined for SMSF Specialists.

www.smsfassociation.com

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.