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**February 2015**

## Self-managed Superannuation Funds

The superannuation industry now accounts for 21% of total Australian financial institution assets, second only to banks. Based on APRA statistics, Australian superannuation assets grew by 9.3% over the 12 months to 31 December 2014 to $1.9 trillion. The fastest growing segment has been self-managed funds (SMSFs). Almost one third of superannuation assets or $568 billion now reside in SMSFs.

SMSFs are primarily small funds with less than five members, established by individuals and small businesses, with advice from accountants and financial planners, and regulated by the Australian Tax Office.

- Based on estimates provided by the ATO at 30 June 2014, there are 534,176 SMSFs with 1,000,675 members. There has been a steady decline in the number of new SMSFs being established (from a peak of 41,000 in 2011-12 to 39,500 in 2012-13 to 32,500 in 2013-14).

- The overwhelming majority of SMSFs have one or two members (92.1%). In terms of geographical location, over 60% of SMSFs are located in NSW or Victoria.

- In terms of median assets per member and per SMSF, the respective figures for 2012-13 are $313,000 and $558,900. Interestingly, the median member balance has increased from $251,700 to $313,000 over 5 years.

- In terms of fund size by assets, the proportion of funds with less than $200,000 in assets has steadily decreased from 27.9% (2008-09) to 22.3% (2012-13).

- There are three costs associated with an SMSF, set up, ongoing running and advice costs. Establishment costs are on average $1,000.

  On-going running costs can be divided into two components, administration and compliance and investment management. Annual administration fee can be in the region of $2,500 p.a. made up of the accountant's fees, the auditor's fee and the supervisory levy to the ATO.

  **Investment management fees** vary and are dependent on the nature and cost of the investment assets and whether a financial advisor is engaged by the SMSF. A self-investment managed SMSF, investing for example, in exchange-traded funds will incur a low fee, around 0.3% p.a. whilst an SMSF that is professionally managed by a financial adviser will incur an annual fee of 1% and 2% of the SMSF value.

- Industry and retail funds average fee are in the region of 1.1% p.a., estimates indicating that an SMSF requires a balance between $200,000 and $500,000 to be financially attractive.

***Graph 4 - SMSF Average Operating Expense Ratio By Fund Size (2012)***


Source: ATO[87], Rice Warner.[88]

- Latest available data from the ATO for June 2014 indicates that the SMSF market is entering and trending towards a drawdown phase with contributions in aggregate lower than benefit payments in aggregate. This indicates that a demographic change is occurring with SMSF trustees moving from accumulation to retirement phase.

- The ATO June 2013 report has identified that SMSF trustees are increasingly choosing income streams over lump sum payments. While total SMSF benefit payments have increased by 59% since 2009, payments taken as lump sums have fallen by 22% and payments taken as transition to retirement pensions and regular income streams have almost doubled.

**Conclusion**

Statistics produced by APRA and the ATO indicates that following the introduction of “Choice” on 1 July 2005, Australian’s have been empowered with the responsibility to choose where and how their superannuation contributions are managed. Armed with this confidence, supported by readily available information on investment strategies and products, many superannuation members approaching retirement have taken full control over their superannuation savings. It suggests a belief that they can do an equal, if not better job, managing their retirement assets themselves than an institution. However the pace of growth in new SMSFs being established has been falling gradually away based on the change in demographics. For the SMSF industry to grow at the expense of the industry and retail superannuation sectors further product innovation and efficiencies is required.

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