Russell Investments

SPAA

Intimate with Self-Managed Superannuation

The second annual study of Self-Managed Superannuation Funds

FULL REPORT / 2012

Welcome to the second annual 'Intimate with Self-Managed Superannuation' report

The SMSF sector now represents one third of Australia's $1.3 trillion superannuation pool. It is the fastest growing superannuation sector by number of funds and asset size[1], having grown at twice the rate of total super industry assets in the five years to June 30, 2010[2].

The jury is in. With the extraordinary growth trend projected to continue into 2012, we can no longer underestimate the importance of SMSFs to the future of superannuation in Australia.

Against this backdrop of strong sector growth we are pleased to bring you the second annual Intimate With Self Managed Superannuation report. The report was commissioned by Russell Investments in conjunction with the Self-Managed Superannuation Fund Professionals' Association of Australia (SPAA), and produced by leading market research consultancy CoreData, providing the pre-eminent quantitative analysis of Australia's growing SMSF market.

It is the culmination of research conducted among Australian SMSF trustees, financial advisors and accountants, and provides an insight into Australia's fastest growing superannuation sector.

This research puts the characteristics and behaviours of the SMSF trustee under the microscope, delving deeper into the mindset of the coach seeker, the controller and the outsourcer and showing year-on-year trends around their needs, financial knowledge, asset allocation and risk mitigation strategies, and reliance on professional advice. It showcases behaviour influenced by an uncertain market, and how the desire for more control and flexibility in retirement outcomes is driving greater trustee involvement in investment strategies.

The research also profiles advisors and accountants offering SMSF advice and administration services to identify the benefits and challenges in servicing this market, typical client profiles and expected future demand from this sector.

It highlights the appetite of advisors who, in order to meet this demand, find themselves on the cusp of a new advice proposition which focuses on value creation, against the backdrop of a shifting regulatory landscape and an increasingly savvy investor looking beyond product advice to a more strategic approach to their investment portfolio.

Intimate With Self Managed Superannuation is the benchmark for the changing and evolving SMSF sector. We hope you find the report insightful, and we welcome your feedback on future research areas.

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SMSF Professionals' Association of Australia Limited ("SPAA")

SPAA represents professional advisors who provide advice in the highly complex area of SMSFs advice. Their core focus is to raise the standard of advice provided by all professionals within the SMSF Industry and are committed to promoting a high standard of education among SMSF professionals and assisting them to work within the regulatory framework.

www.spaa.asn.au

Snapshot

Trustees in focus

The profile of SMSF trustees is becoming younger	While the average balance in 2011 sits at $849,694.90 and the median balance at $525,000, there has been a noticeable increase in the proportion of SMSFs with balances of less than $150,000, increasing to 20.4% from 8.2%. This can be attributed in large part to the growth in popularity of SMSFs among the younger generations, and the broadening appeal of SMSFs among middle Australia. Accumulators typically make up around half of SMSF advisors' client bases (48.0%). Recent statistics from the Australian Tax Office (ATO)[3] support this finding, noting that the age demographic of more recently established SMSFs tend to be younger (11%) than that of the total SMSF member population (5%).
SMSF trustees outperform in the long term, but returns take a hit	According to the Australian Tax Office (ATO)[4], SMSFs outperformed APRA regulated funds with more than four members between 2007 and 2009. Regardless of this outperformance during the last 12 months, 20.5% of trustees made a self-reported negative return, compared to only 1.5% in 2010. The proportion who made a positive return of less than 5% doubled while the number claiming a return of more than 11% fell to just one in five (20.4%) from 32.2% reflecting the global turmoil.
Confidence in meeting target retirement income plunges	There has been a dramatic reduction in confidence, with half as many trustees now very confident of reaching their target income in retirement (17.2% vs. 34.1%). The reduction in confidence is due to the national and international environment which effects performance and returns and continued fears over future Government superannuation policy and the commitment to superannuation as Australia's savings vehicle.
Gender gap leaves female trustees exposed	Despite their more moderate retirement income expectations, two in five female trustees (43.2%) say they will fall short of their target income, compared to only 27.1% of male trustees. The average female trustee anticipated she will need around $1200 per week in retirement, compared to $1700 for the average male trustee.
Off-market transfer ban could affect super contributions	A large proportion of advisors think their SMSF clients would be likely (34.6%) or very likely (12.2%) to contribute less to superannuation if off-market transfers were banned.

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Lifting the bar – the advice opportunity

Increasing advice demand from 'coach seeker' trustees	Around 70% of advisors believe the profile of the typical SMSF client is changing, with more than one third of these (36.1%) pointing to increasing demand from coach seekers. One in five advisors (17.3%) point to increasing demand from controllers and while the outsourcer segment is unlikely to favour an SMSF structure without professional advice and guidance, this latter segment should not be ruled out either. Outsourcers may be attracted to an advised proposition where the key decisions relating to the SMSF are handed to a third party; three in five have an advisor (58.4%), demonstrating their bias towards professional advice.
Scoped advice an opportunity	Scoped advice offers a new way for advisors to tap into controller SMSF trustees and Generation X and Y, who want advice on their specific, point-in-time needs. The aspects of the advice offer most valued by those SMSF trustees seeking advice in 2011 are: investment advice (72.7%) and compliance advice (59.1%).
Finding good professional advice still a challenge for trustees	More than one third of advisors agree the Future of Financial Advice reforms (FoFA) will lift professional standards for financial advice. However less than one in five (18.0%) agree consumers will be more confident that they will be getting professional advice services, while even fewer (17.1%) agree the reforms will lift consumer confidence in the financial services sector. Despite this, finding good professional advice remains the most challenging aspect of running an SMSF according to trustee respondents, with almost two in five (37.4%) saying this was 'very challenging', in line with 2010 (37.6%). This was supported by a recent "shadow shopping" exercise by the Australian Securities Investment Commission which revealed "high levels of poor quality advice", reinforcing the need for further education for SMSF professionals to build integrity in the industry. The industry must look outward not inward and grasp FoFA as an opportunity to broaden the take up of professional advice.
Retirement advice could boost confidence levels	Since the needs of retirees revolve around income requirements, rather than growth, there is an advice opportunity around the importance of income in retirement, and the need to review and possibly adjust asset allocations to ensure trustees meet their investment objectives and target income in retirement. This is particularly important given one in five trustees are now in the transition to retirement (TTR) phase (20.5%) and almost one third are retired (31.5%).

Cushions of cash

High cash allocation here to stay	Market uncertainty has caused trustees to hoard cash and sit on the sidelines, but they are no longer waiting for investment opportunities – holding cash is now a deliberate risk reduction strategy.
Risk, not cost or return, driving asset allocation	So strong is the focus on risk reduction, it has taken the lead as the key driver of asset allocation, overtaking cost (34.1% vs. 41.2%) and return (32.4% vs. 37.3%), which have both become lesser drivers in 2011.
International managed funds fall out of favour	One of the consequences of the financial planner's focus on risk reduction has been that international managed funds have fallen out of favour with SMSF trustees. The proportion of international equities allocations invested via managed funds has reduced to an average of 29.9% in 2011, down from 42.1% in 2010. This reflects the broader desire to reduce equities exposure and the fact that international equities can only be accessed via managed funds in the main.
Equities considered 'too volatile'	The proportion of SMSF trustees who believe that equities are too volatile has doubled to one third (32.4%) this year, up from just 17.0%. Only 6.3% say they haven't had time to invest their cash but plan to do so over the coming year, down from 14.4% in 2010 – again reinforcing that the allocation to cash is a deliberate risk reduction strategy.

Future Growth

Contribution cap limits have $12.4 billion impact	Around two in five SMSF trustees would have contributed on average an extra $64,875 each to their SMSF if the contribution cap limits were raised, equating to a collective contribution of $12.4 billion. This is slightly lower than last year's $15.1 billion, suggesting the global economic turmoil has affected people's willingness to invest. This reduction will significantly impact Government's objectives of adequacy and building a national investment pool.
Insufficient assets a perceptual barrier	Lack of knowledge remains the number one barrier to establishment of an SMSF, however the second most common barrier to establishing an SMSF is consumers' perception that the size of their super assets does not justify having one. Yet many of those who hold this perception have balances of at least $350,000, a level at which having an SMSF may indeed make sense.

Future Growth cont...

Generation X/Y an emerging growth segment	In recent years, the SMSF vehicle has begun to attract a younger demographic. Some 13.7% of Generation X respondents (aged 31-45 years) and 10.0% of Generation Y respondents intend to establish an SMSF within the next two years, compared to 10.5% of Baby Boomers. The increasing demand from younger people with lower balances might reflect the heightened focus on holding assets that can be purchased directly and cheaply. Many advisors servicing the SMSF sector say they are increasingly targeting accumulator trustees.
Advisors go after SMEs	Advisors have ramped up their focus on small business owners with two in five advisors (38.8%) claiming more than 50% of their client base is small to medium-sized enterprise owners (SMEs), up from just 22.5% last year. According to the Australian Bureau of Statistics (ABS), there are around 2 million SMEs in Australia, including non-employing enterprises[5]. Many advisors claim SMEs, self-employed and professionals are the ideal candidates for an advised SMSF.
Women need advice and guidance	While only 16.1% of female respondents currently have an SMSF, women are an inevitable growth segment for the SMSF sector in future. The gap in both their perceived knowledge and understanding and confidence in achieving their desired income in retirement compared to their male counterparts, make females an ideal target for the professional advice industry. According to the Association of Superannuation Funds Australia (ASFA), in the financial year 2009-10 women held around 37.0% of total superannuation account balances, compared to 63.0% for men[6].

5 8165.0 - Counts of Australian Businesses, including Entries and Exits, Jun 2007 to Jun 2009

6 ASFA Research and Resource Centre: Developments in the level and distribution of retirement savings, September 2011

Methodology

The second annual *Intimate With Self managed Superannuation* research report is sourced from a collection of quantitative and qualitative data gathered from SMSF trustees and professional advisors between September and November 2011.

Two online surveys were developed and hosted by CoreData following liaison with SPAA and Russell Investments.

SMSF trustee research

Online survey

The trustee survey was conducted from 19th September through to 26th October, the primary target being SMSF trustees. Data was also collected from members of other super funds (excluding SMSFs) and high net worth individuals (HNWIs) without SMSFs to compare and contrast the views of trustees against APRA-regulated fund members.

Respondents were sourced from CoreData's proprietary panel of more than 100,000 Australian consumers, SPAA's member network and National Seniors Australia.

A total of 1,406 Australian consumers were surveyed, of whom 337 were SMSF trustees and 174 HNWIs without SMSFs.

Focus group

A focus group among eight SMSF trustees was held on the 21st November in the Sydney CBD. The session ran for one and a half hours and was used to develop a deeper understanding of SMSF trustee behaviour and their future intentions.

SMSF advisor research

Advisor survey

The trustee survey was conducted from 20th September through to 17th October and targeted professional advisors (including accountants) who provide advice and administration solutions for SMSF clients.

Respondents were sourced from CoreData's proprietary panel of Australian financial advisors and the SPAA member network and included primarily financial planners, accountants and practice principals, as well as a small number of paraplanners, auditors and lawyers.

A total of 513 responses were recorded for this component of the research.

Detailed findings

Trustees in focus

"A lot of people have benefited from a parting gift from John Howard, but how long is that going to stay? Every new government comes in, they're just going to look at this huge pot of money and think 'Well maybe we should mandate using some of that to build bridges and roads and high speed trains'."

(Male Focus Group Participant, Retiree SMSF trustee)

General

The second annual *Intimate with Self-managed superannuation* report delves further into the nature of the trustee to discover what's driving behaviour in this burgeoning segment of the superannuation sector.

According to the Australian Taxation Office (ATO), SMSF assets grew twice as quickly as the total industry for the five years to June 2010[7].

The report claimed assets grew by 122.0% for the five years to June 2010 – double the rate of growth in the total superannuation sector.

Establishments (net of windups) averaged 25,000 a year or 2,100 a month between 30 June, 2005 and 30 June, 2010.

This year's *Intimate with Self-managed superannuation* report reveals almost half of SMSFs (48.7%) have been established for seven years or more, while 20.1% have been around for three years or less, consistent with the ATO's report.

According to the Australian Prudential Regulation Authority (APRA), at 30 September 2011 SMSFs held the largest proportion of superannuation assets, accounting for 31.1% of assets, followed by retail funds with 27.5% of total assets[8].

Industry funds accounted for 18.9% of total assets, public sector funds 15.3% and corporate funds 4.3%. Small APRA funds held 0.2% of total assets.

Last year's inaugural *Intimate with Self-managed Superannuation* report flagged the emergence of a new profile of SMSF trustee – the 'coach seeker' – with the growth in this segment borne out in this year's results.

The coach seeker tends to seek external affirmation for their decisions, and while they would rather do things themselves, they need information and support in their decision-making and are often looking for someone to help or mentor them. Coach seekers make up around 50% of the total population.

While growth in the SMSF sector to date has been largely among 'controllers', who make up around 20% of the Australian population but 37.1% of the trustee sector, our assertion in 2011 was that since two in five controllers already had an SMSF (42.1%), compared to just 27.8% of coach seekers, further initial future growth was likely to come from the coach seeker segment.

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8 APRA Quarterly Superannuation Performance, September 2011 (issued 8 December 2011)

Controllers are interested in managing their money and like doing it themselves, often with limited support from professional advice services.

Outsourcers would rather someone else manage their money and finances and are more open to an advice relationship, however only 11.3% of trustees are outsourcers, reflecting the fact that the traditional DIY perception of the SMSF does not gel with their preference for delegating management of their finances.

However, the outsourcer segment should not be ruled out by advisors servicing the SMSF sector. This segment, while unlikely to favour an SMSF structure without professional advice and guidance, may be attracted to an advised proposition where the key decisions relating to the SMSF are outsourced.

In fact three in five outsourcers (58.4%) already have an advice relationship, compared to only 28.8% of controllers and 46.8% of coach seekers.

Around seven in 10 advisors believe the profile of the typical SMSF client is changing, with more than one third of these (36.1%) pointing to increasing demand from coach seekers. One in five advisors (17.3%) point to increasing demand from controllers.

One third of advisors admit that their clients direct the investment strategy for their SMSF, with 27.6% saying they do so 'to a large extent' and 6.1% saying they do so 'almost entirely' (6.1%). Almost half say the client directs strategy 'to some extent' (46.8%).

This latter segment expresses the characteristics of the coach seeker, and confirms there's a growing attraction to SMSFs from people who are not the traditional controller type.

Crisis of confidence

The past 12 months have been particularly challenging for investors and advisors, with continued global economic woes spurred by the US and European debt crisis heavily weighing on consumer confidence.

CoreData's Investor Sentiment Index revealed a decline in sentiment throughout 2011, with confidence falling from -4.3 in Q1 to -22.4 in Q4 – lower than confidence levels experienced during the height of the global financial crisis (GFC) and the lowest point ever in the history of the index, which dates back to early 2005.

The general uncertainty that permeated the investment landscape has carried through into superannuation, partly due to concerns over Government policy changes and partly due to the return environment.

Total estimated superannuation assets increased just 2.0% to $1.28 trillion in the 12 months to September 2011, with SMSF assets decreasing by 3.5% .

There has been marked deterioration in the proportion of trustees who are very confident about achieving their target retirement income. Only 17.2% are very confident about this, half the proportion of respondents who were very confident in 2010 (34.1%).

The decrease in confidence in meeting their desired level of income in retirement is being driven to a large extent by recent superannuation returns.

According to APRA, the average rate of return (ROR) for fund entities with at least $50 million for the year to September 2011 was -1.0%. Corporate funds generated a return of -0.6%, public sector funds -0.7%, industry funds -0.1% and retail funds -2.7%.

9 APRA Quarterly Superannuation Performance, September 2011 (issued 8 December 2011)

The estimated return on assets for SMSFs was positive for the year ended 30 June, 2007, however this was followed by negative returns in the years ended 30 June, 2008 and 2009 (16.7%, -6.3% and -6.7% respectively)[10].

Comparisons to APRA regulated funds of more than four members showed the same trend for the three years (14.5%, -8.15% and -11.7% respectively), however the ATO cautions that while the methodology used to estimate SMSF performance resembles APRA's, the data collected is not the same.

Of those who were aware of the return they achieved on their SMSF in the last 12 months, two thirds of trustees claimed to have made a positive return (65.6%), while 20.5% made a negative return, compared to only 1.5% in 2010.

However, with renewed market turmoil affecting balances across the board, there was a considerable fall in the level of self-reported returns being generated.

This year, the proportion of trustees who claimed to have made a positive return of less than 5% doubled to 22.2%, from 11.4% in 2010, while the proportion who achieved between 5 and 10% also jumped to more than half of trustees (57.4% vs. 49.5%).

The commensurate returns at the high end of the scale likewise underwent a turnaround, with the number of trustees claiming to have achieved a return of more than 11% falling to just one in five (20.4%), down from 32.2% last year.

While the SMSF sector has less access to clear benchmarks against which to measure their performance, the large majority of trustees claim to measure their performance against some pre-determined metric.

Almost one third of trustees (31.1%) say that they personally set performance targets to meet their own calculations regarding the level of income required in retirement, while just over one quarter measure their return against the All Ordinaries (27.5%).

A further quarter (25.6%) use the Consumer Price Index (CPI) plus some pre-determined amount, while just over one in five (22.3%) rely on guidance from their advisor.

Only 15.8% say they do not use any benchmark for measuring their SMSF's performance.

Trustees polarised

While confidence in meeting target retirement incomes has been impacted by the low return environment, confidence in the superannuation system in general is also being damaged by continued fears over future government superannuation policy.

"Politicians keep changing the superannuation regime. Politicians and public servants keep making it more complex every year. There is little continuity. I do not trust successive governments to stop fiddling with it. There are too many rule and regime changes."

(Male respondent, aged 56, NSW)

Interestingly, while this attitude prevails, trustees are polarised over what impact this has on their actual investment behaviour.

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Some say that due to the uncertainty about the future direction of government policy, the bulk of their investments are held outside super – while others claim that the tax incentives of investing in super outweigh the potential future risk.

"I do have a substantial amount in super, but that represents about 10% of my financial investments. So 90% is not in super and that's because if I wish I'm out of here. Snap."

(Male Focus Group Participant, Retiree SMSF Trustee)

"The governments will probably keep on tweaking superannuation, but it's just kept on getting better and better."

(Male Focus Group Participant, Accumulator SMSF Trustee)

This year's research provided further evidence that with control comes confidence, reflected in the vastly different levels of confidence between SMSF trustees and the APRA fund sector.

Trustees and non-trustees hold almost polar opposite views with regards to their confidence in the superannuation system.

Just under a quarter of trustees (22.8%) feel 'very confident' in the system, while one quarter of non-trustees (23.5%) are 'not confident at all' in the system.

Likewise, two in five trustees (41.2%) are 'quite confident', compared to just 25.9% of non-trustees.

The qualitative research suggested some trustees do not trust the APRA fund sector's ability to manage their money competently, driving them to take control via the establishment of their own SMSF.

Many say that the SMSF has lived up to their expectations – regardless of the fact that they have suffered poor or negative returns over recent years – largely because the responsibility for their money is all theirs, and they can learn from their mistakes when it comes to investment.

"I'm pretty satisfied. I feel as though I've got control over the money I'm investing. Most of it [is] in term deposits, but I've got some of it aside in a savings account just in case I want to join in the share market when things stabilise and I feel as though in the future I will, but I just need that stabilisation. At the moment it's a rollercoaster as you all know."

(Male Focus Group Participant, Retiree SMSF Trustee)

"I'm about 90% positive about the income I will be getting in the future. Unlike before, years ago, I wasn't feeling like that. I thought there's a good chance I wouldn't have any money in retirement, the way things were going. Having the self managed super fund [changed things] – the control and the certainty of engaging yourself for the future."

(Male Focus Group Participant, Accumulator SMSF Trustee)

Gender gap

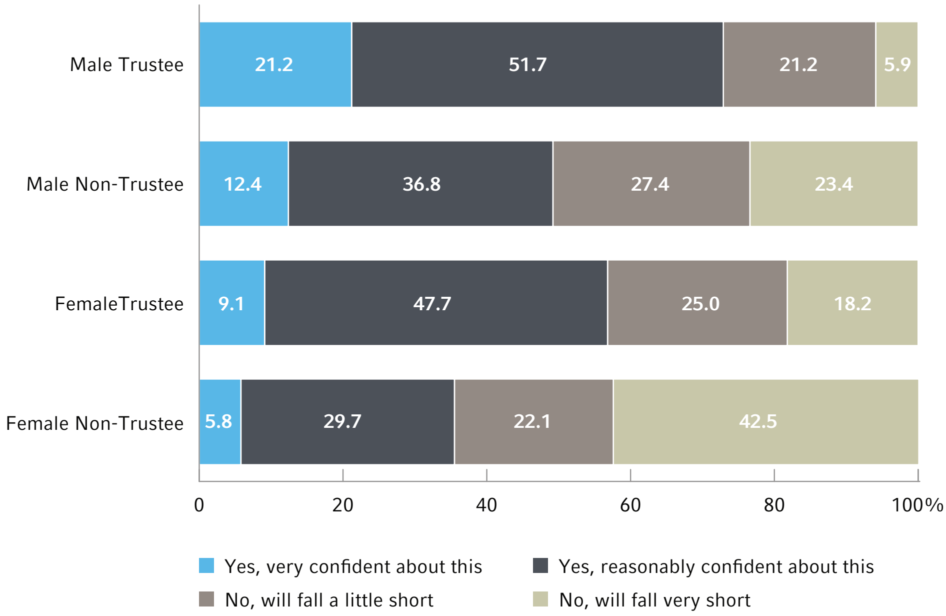
It is broadly recognised that there is a gender gap when it comes to perceptions of financial knowledge and understanding.

Women typically express greater levels of anxiety around their finances, are more likely to worry that they will not have enough money to live comfortably when they retire, and to say they want to manage their money and finances themselves but require information to support their decisions.

This year's research reveals that less than one in five women (17.8%) rate their investment knowledge as either strong or very strong, compared to 41.1% of men. Conversely, some 28.8% of women rate their knowledge as poor or very poor, while only 11.9% of men claim to have this level of knowledge.

The gender gap is likewise evident among male and female SMSF trustees.

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



While one in five male trustees (21.2%) are very confident that they're on track to achieve their target retirement income, only 9.1% of female trustees claim to be. Further, while one quarter of male trustees (27.1%) think they will probably fall short in meeting their target income to some extent, two in five female trustees (43.2%) say they will fall short.

The results suggest that for women, lack of perceived knowledge is a large contributing factor in the lack of confidence in ability to meet their target income in retirement.

This gap is striking when put in the context of expectations for weekly retirement income, with female trustees expressing much more modest expectations than their male counterparts.

Around one quarter of female SMSF trustees (26.7%) believe they will need $800 or less per week in retirement, compared to 17.0% of male SMSF trustees. Similarly, almost two in five male trustees (37.3%) believe they will require more than $1,500 per week, compared to only 22.2% of female trustees.

So even with these modest estimates for income needs, women still think they're going to fall short.

There is clearly a need for greater focus by the financial services industry on educating and assisting women in planning for their retirement - particularly given female trustees play a strong role in the financial decision making about their SMSF.

Although there are not substantial differences between the genders, women tend to play a collaborative role, with more than one third of female trustees (36.6%) saying they share in making all the financial decisions with their spouse, who is also a member of the SMSF.

They are slightly less likely than male trustees to say they usually make all the financial decisions regarding their SMSF (29.3% vs. 35.7%).

Advising trustees

This year's research shows the proportional split, by number of clients, between SMSF and non-SMSF clients has shifted.

The average professional advisor respondent has two in five SMSF clients (40.2%), up from 35.4% last year, versus three in five non-SMSF clients (59.8%), down slightly from 64.6%.

The number one aspect trustees look for when seeking a professional advisor remains investment expertise. However, among the top five aspects are; rapport and recognised professional qualifications, emphasising the importance of both hard and soft skills for advisors servicing this sector.

Building rapport and engaging clients is not possible without personal contact, and this year's research suggests those advising and/or administering SMSFs are frequently in contact with their SMSF trustee clients.

Almost one third of advisors say they are in direct contact (either by phone or face to face) with the typical SMSF client at least monthly, while a further two in five speak to their clients on a quarterly basis (40.9%).

The results suggest those advising SMSFs are well placed to deal with the Government's proposed two-yearly opt-in requirement, since they are already in frequent contact with their clients.

Yet regulatory and legislative change is perceived to be the greatest challenge in advising SMSF clients, overtaking compliance obligations – the number one challenge in 2010 – suggesting a need for guidance and leadership from the industry to help advisors navigate the points of challenge within the regulatory landscape.

Managing trustee expectations has become a more prominent challenge for advisors in 2011, possibly reflecting the difficult market conditions and the tendency of investors to link the value of advice to investment returns.

Encouragingly for the industry, managing trustee obligations is considered less challenging this year, however the focus on educating trustees about their role and responsibilities must continue.

"The major problem is education and emphasising the problems associated with non-compliance."

(Male, 15 years in practice, Vic)

Fewer respondents this year rated their SMSF clients' understanding of their obligations and responsibilities as strong (based on a 7-10 rating), 29.8% compared to 34.8% last year.

Conversely, the proportion who gave a moderate rating (4-6) increased to almost half (47.6% vs. 43.7%).

Off-market transfers

A key aspect of the Government's Stronger Super reforms includes a ban on off-market transfers for SMSFs.

Under the measures, all off-market transfers between SMSFs and related parties must be conducted on market where a ready market exists, to remove any potential for manipulation of capital gains tax or excess contributions tax.

While off-market transfers are not common – 79.4% of trustees say they never make off-market transfers – the restriction, which does not apply to APRA regulated funds, will put trustees that do utilise off-market transfers involving listed shares at a disadvantage.

While only 15.1% of those advising the SMSF market make off-market transfers on behalf of their trustee clients 'regularly' (several times a year), a further two in five (41.5%) make them occasionally (few times in past years).

A large proportion think their SMSF clients would be likely (34.6%) or very likely (12.2%) to contribute less to superannuation if off-market transfers were banned.

Only 1.7% believed their clients would be likely to contribute more, while around half (51.5%) said they anticipated no change in their trustee clients' contributions.

Lifting the bar – the advice opportunity

"You can go off to virtually anything to clock up your CPD hours. You can do any of your training… online with multiple choice questions which doesn't test competency at all. So that façade of educated financial advisors is not true."

(Male Focus Group Participant, Accumulator SMSF Trustee)

General

There is a strong drive within the financial planning industry to raise the bar for professional standards among advisors.

Industry bodies, licensees and professional services companies have been working with advisors to boost education standards as a means for improving not only the quality of financial advice being provided to Australians but consumer trust in financial planning in general.

Despite the controller nature of many trustees, SMSF trustees typically show greater take up of advice relative to non-trustees.

In 2011, two in five SMSF trustees state that they have a dedicated financial advisor – a slight year-on-year increase (37.8%). In contrast, only one in five (20.5%) non-trustee respondents have a dedicated advisor, a decrease of 5.8 percentage points on 2010.

Controller trustees (7.2%) are much less likely than coach seekers (23.0%) and outsourcers (44.7%) to have set up their SMSF on advice from their financial planner, again confirming that these latter segments offer a large, untapped opportunity for advisors.

The majority of professional advisors who participated in the study were financial planners (42.9%), while around one in five were accountants (22.4%) and more than one quarter were practice principals (27.1%). A small number of paraplanners, auditors and lawyers also took part in the research.

Of those who took part, only 10.3% do not offer SMSF services. Around half (48.2%) say they are advising only (for example tax strategy, fund structure, investments, asset allocation, auditing), down slightly from 50.3% last year, while more than one third (34.8%) are providing administration as well as advice, compared to 35.7% in 2010.

Building trust

A key challenge for the advice industry comes in the fact that the media remains a much more heavily utilised source of information for financial decision-making among both trustees and non-trustees than professional advisors and accountants.

Heavy usage of the media reflects the controller behaviour of many trustees, who prefer to do their own research rather than rely on professional advice – or couple the advice they get from their professional advisor with insights gained from other sources.

More than half of trustees typically turn to the financial media when making financial decisions (52.5%), on par with last year (54.8%), and a further 46.9% refer to general newspapers, magazines and websites (46.9%), compared to 48.7% in 2010.

The reliance on professional advisors has remained stable at around two in five (40.4% vs. 41.8%), as has usage of the ASX (38.0% vs. 36.0%).

Fewer trustees, however, are relying on broker newsletters in 2011 (32.3% vs. 38.1%).

Lack of trust in advisors' ability to act in the best interests of their clients, continues to permeate the mindset of many Australians who do not seek advice – partly due to an inability to decouple investment returns from the less tangible aspects of advice.

The primary reason given by those trustees who do not seek advice for rejecting the need for a dedicated advisor is the belief that they just try to sell products to benefit themselves (46.0%), however this is closely followed by the general attitude 'I do not need one' (41.0%).

Just two in five trustees (42.1%) have a dedicated financial advisor and while this is much higher than among non-trustees (20.5%), there is a long way to go to convince the broader trustee and non-trustee market of the value of advice.

Both the qualitative feedback from the trustee focus group and quantitative feedback via the online survey suggests the jury is still out on advice for many trustees.

The controller trustee focus group participants suggested that the type of advice they required was strategic not product-based and that those advising the sector need to hone their value propositions to better appeal to unadvised trustees.

"We need someone who's in the middle between an accountant and advisor, it's someone with the technical information about those strategies. It's strategic, not product based. How we would ever get that I don't know because where would the income come from?"

(Male Focus Group Participant, Accumulator SMSF Trustee)

There has been a slight year-on-year reduction in the number of trustees that believe advisors just try to sell products to benefit themselves, down from 50.0% last year, as well as a reduction in the proportion who feel they can do a better job themselves (38.8%, down from 45.2% last year).

The research also suggests that part of the scepticism of advice is down to the fact that people lack information about where to go to find credible sources of advice.

"I need an accountant to [set up an SMSF], I just have not get around to find the right accountant whom I can trust."

(Female non-trustee, aged 57, NSW)

Indeed, finding good professional advice remains the most challenging aspect of running an SMSF according to trustee respondents, with almost two in five (37.4%) saying this was 'very challenging', in line with 2010 (37.6%).

It remains to be seen whether the Future of Financial Advice reforms (FoFA) will increase consumer confidence in advisors, but at this stage, advisors remain unconvinced that the reforms will make much of a difference.

While more than one third (36.7%) agree they will lift professional standards for financial advice, less than one in five (18.0%) agree consumers will be more confident that they will be getting professional advice services, while even fewer (17.1%) agree the reforms will lift consumer confidence in the financial services sector.

Just one in 10 believe they will encourage more people to seek financial advice.

On the flip side, almost half of advisors (47.1%) expect the reforms will have either a 'very negative' or 'somewhat negative' impact on them as an advisor while only one quarter (27.2%) believe the reforms will have a positive impact.

Advisors upskilling

Much of the impetus for a move to professionalism is due to regulatory change, which is forcing advisors to skill up to meet the increasingly high standards being expected of those who are providing financial advice to Australian consumers.

SPAA has experienced a 65% surge in the number of SMSF professionals who achieved its SMSF Specialist Advisor (SSA) and SMSF Specialist Auditor (SSAud) qualifications over the past 12 months, fuelled by the increased focus on professionalism.

The number of SSAs grew 62% or by 384 advisors, to 1004. Further, some 24 education providers are listed on the association's National Training Register, offering 26 training programs or activities for SMSF professionals.

The drive towards professionalism is a positive evolution for the industry, however it is important that the qualifications being undertaken are aligned to the needs of consumers and reflect expected future demand.

The aspects of the advice offer most valued by those SMSF trustees that seek advice in 2011 are: investment advice (72.7%) and compliance advice (59.1%).

Tax advice and retirement planning are also highly valued this year (51.5% respectively) and those who don't have a dedicated advisor also select tax advice as the top area in which they require professional advice or assistance (61.2%), suggesting this is a key gap where advisors have a role to play.

Other areas where the unadvised require assistance include compliance (46.8%) and estate planning (22.3%).

The appetite for borrowing among trustees remains low, with only 8.6% of trustees having borrowed to invest in their SMSF portfolio, and a further 13.0% planning to do so.

Some 75.6% have not borrowed to invest and do not plan to, in line with last year (77.4%).

Despite this, almost half of advisors provide advice on gearing in super (48.0%), and the proportion of advisors who are focusing advice in this area has increased year-on-year, up from 38.7% in 2010.

Almost half of advisors (47.1%) have provided advice on the new borrowing rules to clients to purchase a residential or commercial property in their SMSF via an instalment warrant, up from 42.1% last year.

The new measures were applied to limited recourse borrowing arrangements for SMSFs put in place on or after 7 July, 2010 or to refinances of existing loans on or after this date.

It's important for advisors to ensure they are focusing their education efforts in the right areas, to get the most bang for their buck.

Spotlight on compliance

Approved auditors are required to submit to the ATO, as part of the annual audit, Auditor Contravention Reports (ACRs) that disclose SMSF contraventions according to ATO reporting guidelines. These range from minor administrative contraventions to more serious contraventions, such as breaches in relation to investment in in-house assets[11].

According to the ATO, the percentage of the SMSF population with ACRs from the year ended 30 June, 2004 to 30 June, 2009 audit years has remained relatively stable at approximately 2% of all SMSFs each year.

There were 8,126 SMSFs that had ACRs lodged containing 17,866 contraventions in the year ended 30 June, 2010. Just under half of these were reported as rectified.

The most common reported contraventions were loans or financial assistance to members, in-house assets and separation of assets.

A combination of trustee education and professional advice appears to be behind the low level of breaches of the prescribed contribution caps in the last 12 months.

11 ATO Self-managed superannuation funds: A statistical overview 2008-09

The penalties for exceeding the prescribed contribution caps are not insubstantial, however only 3.3% of trustees said that they or their employer contributed in excess of the caps, which resulted in them or their fund having to pay excess contributions tax in the past 12 months.

The most common reason for the breach was an administration oversight by them or a member of their fund.

Fee-for-service

Under the FoFA reform package, conflicted remuneration structures including commissions and volume based payments in relation to the distribution and advice of retail investment products will be banned from July 2012 for new financial planning clients.

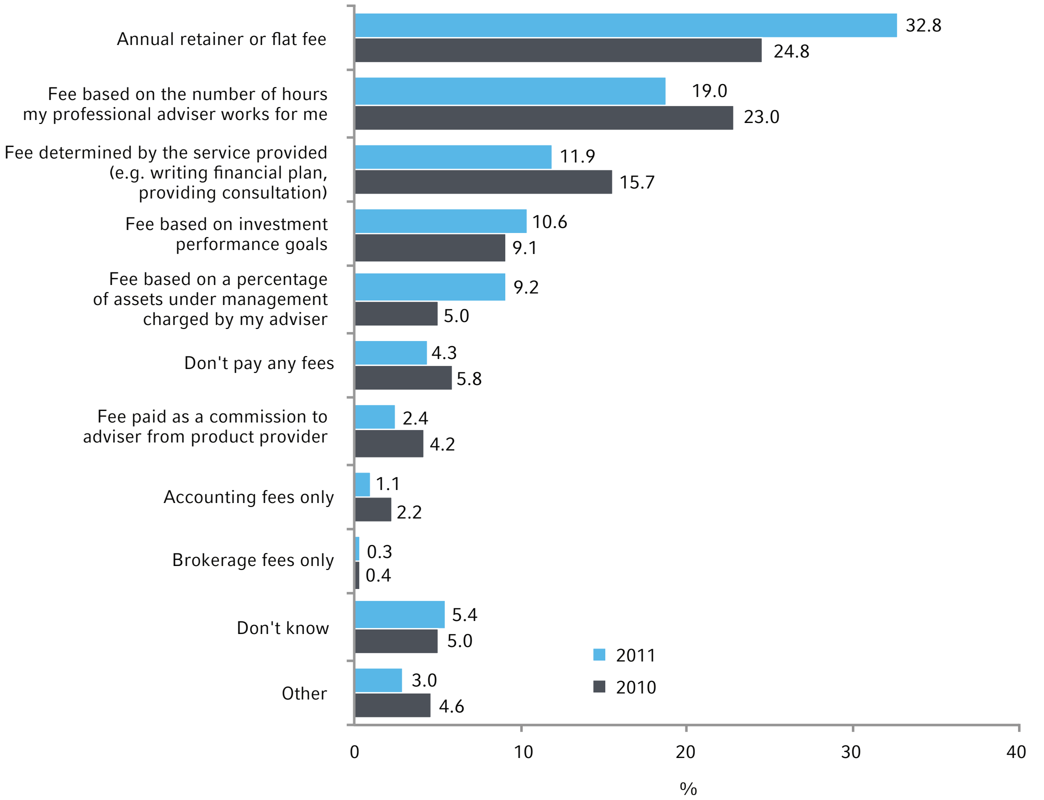
This has been a bone of contention for many industry participants, however the research suggests advisors are well on their way to transitioning to a fee-only environment, with almost one third of trustees paying an annual retainer or flat fee for advice services (30.4%), up from 22.5% last year.

This payment method has now overtaken fee based on the number of hours the advisor works (19.9%) as the most common method of payment.

Some 16.1% pay a percentage of assets based fee, on par with last year (15.1%).

Figure 2 – How do you currently pay / How would you prefer to pay the fees and costs relating to your SMSF?

**Multiple answers allowed*
n = 337 (2011), 431 (2010), respondents who have SMSF



These methods remain the most preferred methods in 2011, however trustees are showing a greater preference for annual retainers this year.

When asked how they would prefer to pay the fees and costs relating to their SMSF, almost one third listed annual retainer or flat fee (32.8% vs. 24.8% last year), while one in five preferred to pay a fee based on the number of hours worked, slightly down on last year (19.0% vs. 23.0%).

The approximate average amount of fees and costs paid on an SMSF annually (including related advice, compliance and accountancy costs) is $4,268, up from $3,670 in 2010.

The proportion of trustees who are paying less than $1,000 has decreased to 14.6%, from 22.0% last year, while the proportion paying more than $5,000 has increased to one quarter (24.9%), up from one in five last year (20.3%).

Scoped Advice

The changes in the regulatory landscape including the shift to fee-for-service – an approach already widely adopted among SPAA members - are creating opportunities for advisors to increase the take-up of financial advice.

SMSF trustees are an obvious candidate for scoped advice, since they express a preference for receiving their advice in a piece-by-piece manner.

Since the GFC the number of mass affluent and HNWIs seeking to invest without advice has effectively doubled, up to almost 22% of all respondents[12].

So far the bulk of this new "direct" investment has been into cash.

The structuring of the financial planning industry around commissions and ongoing revenue has in the past removed any incentive for advisors to provide scaled or scoped advice to their clients.

However, with the move towards fee-for-service and business valuations on an EBIT rather than multiples, the barriers to providing scoped advice have been largely removed.

While limited advice is an area that many have assumed will apply only to the lower end of the market, this research reveals such an offer may be a way to tap into the controller SMSF trustees, who want advice only on their specific, point-in-time needs – such as transition to retirement.

"I think it's quite difficult to get advice on specific issues. I've tried a couple of times to get advice on transition to retirement issues and this kind of thing and it's really quite hard."

(Male Focus Group Participant, Retiree SMSF Trustee)

"There may be specific questions that people have, like the contribution limits and how they work exactly because you don't want to break the rules and it can be actually quite hard to find out. You can spend hours on the Tax Office website in various places and not get an authoritative statement on how things work. In fact I don't know where you do get answers for all of these things."

(Male Focus Group Participant, Accumulator SMSF Trustee)

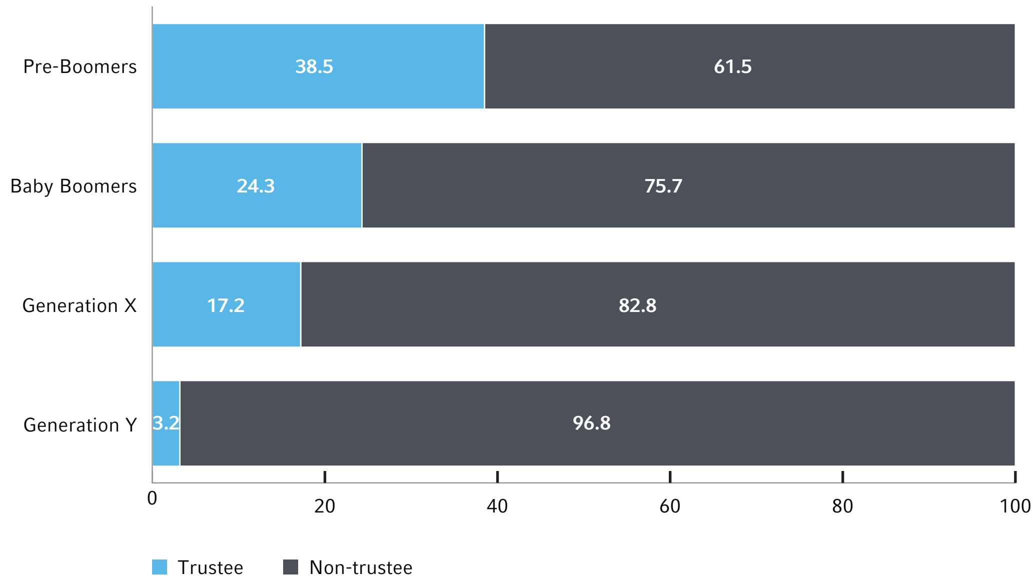
While limited advice needs span across many generations, the provision of scoped advice could also help boost take up of professional advice by accumulator SMSF trustees in the younger generations.

12 CoreData Direct Investing Report, May 2011

At present, accumulators typically make up around half of SMSF advisors' client bases (48.0%), while transition to retirement clients account for one fifth (20.5%) and retired clients just under one third (31.5%).

Of the SMSF trustees in the sample, the majority are classified Baby Boomers (58.1%), however one in five (22.0%) are Generation X, while 15.5% are Pre-boomers and 4.4% are Generation Y.

Figure 3 – Trustee vs Non-trustee Generations



But in recent years, the SMSF vehicle has begun to attract a younger demographic. Some 13.7% of Generation X respondents (aged 31-45 years) and 10.0% of Generation Y respondents intend to establish an SMSF within the next two years, compared to 10.5% of Baby Boomers.

Many advisors servicing the SMSF sector say they are increasingly targeting accumulator trustees.

"Accumulators with busy lifestyles who are seeking a close relationship with the advisor and happy to hand over the daily management of their super."

(Female, 15 years in practice, Vic)

"Accumulators seeking more control, typically business owners"

(Female, 4 years in practice, NSW)

Further evidence of this new growth segment can be seen in the analysis of the average SMSF balance. While the average balance in 2011 sits at $849,694.90, there has been a noticeable increase in the proportion of SMSFs with balances of less than $150,000, increasing to 20.4% from 8.2%.

This can be attributed in large part to the growth in popularity of SMSFs among the younger generations.

Indeed, all Generation Y respondents with SMSFs fell into the $50,000 to $150,000 balance band, while 42.9% of Generation X respondents fell into that same category.

The median balance of an SMSF trustee in 2011 is $525,000, backing up claims that the average balance is being dragged up by the one quarter of trustees (24.4%) with balances of more than $1 million.

In 2011, one quarter of trustees (24.4%) have a balance of $200,000 or less, the amount which the Super System Review 2009[13] found to be the size wherein having an SMSF becomes economically viable.

Some 54.2% of the population are currently under the age of 40 (around 12,261,026 people), with 28.8% of these aged between 20 and 39[14].

The increasing demand from younger people with lower balances might reflect the heightened focus on holding assets that can be purchased directly and cheaply.

With technological advances and the ability to invest directly now in most major asset classes via trading platforms, SMSFs could become more viable from a cost perspective for the younger demographic.

13 A Statistical Summary of Self-managed superannuation funds. Australian Government Review into the Governance, Efficiency, Structure and Operation of Australia's Superannuation System, 10 December 2009.

14 Australian Bureau of Statistics, Australian Demographic Statistics, June 2011 (released 19 Dec, 2011)

Cushions of Cash

"The things that I'm worried about I have no control over whatsoever. So all I can do is arrange my affairs so that I've got as much protection as I think I need and then just let the world take its course."

(Male Focus Group Participant, Accumulator SMSF Trustee)

General

A wall of cash has been building in the Australian system since the global financial crisis, as investors seek a safe haven in the face of continued global economic uncertainty.

Total Australian Deposit-taking Institution (ADI) deposits jumped 7.4% in the year to September 2011, or $40 billion, to $580 billion.

There is not yet any evidence of the cash bounty being re-allocated back to other assets, and there is unlikely to be so while ADIs offer interest rate returns of towards 6%.

This trend has had a huge impact on financial advisors, many of whom have turned to risk insurance as a diversified revenue source.

Large swathes of cash have likewise been building within the superannuation system, via both SMSFs and the APRA fund sector.

Reflecting this trend towards less risky assets, bonds and other fixed interest investments and products have become the area most commonly advised on by those providing advice to the SMSF market (76.8%) – overtaking direct Australian shares in 2011 (65.4%). This is closely followed by advice on cash investments, including savings and term deposits (72.9%).

Risk reduction

SMSFs have long held strong cash holdings, in part due to the fact that many of them hold investments outside of the superannuation system.

But while in 2010 trustees were waiting for a better investment option, in 2011 the primary driver is risk reduction.

While most cash holdings are reported to the ATO at 30 June, the *Intimate with self-managed superannuation* report provides a different perspective of trustee cash holdings.

Last year, more than half of those with a greater than 10.0% allocation to cash said they were waiting for a better investment option. In 2011, only two in five (44.3%) say this is the case.

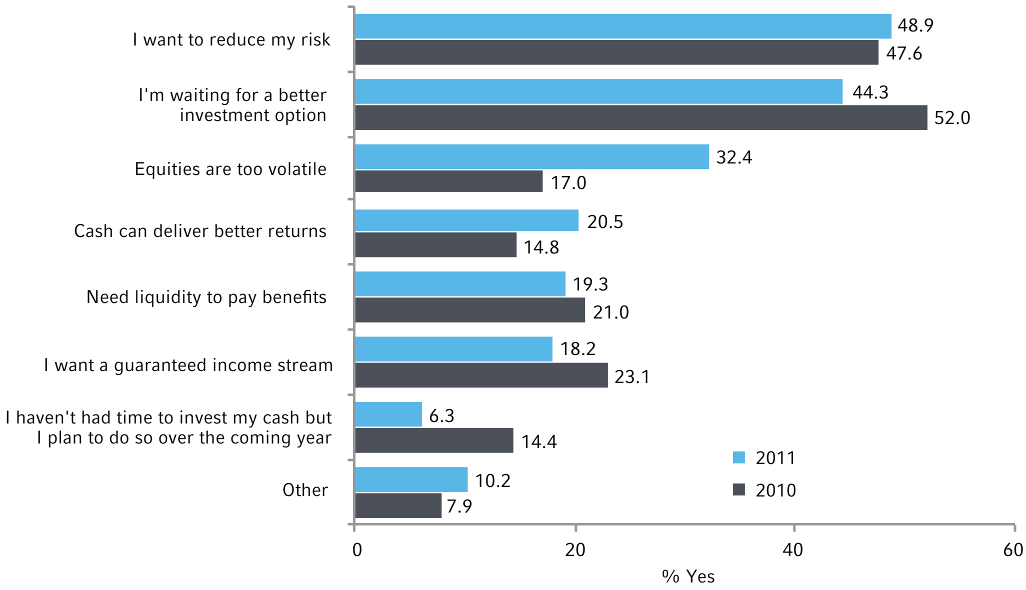
This year, the number one reason for overweighting cash is a desire to reduce risk (48.9%) – it is now seen as the most appropriate asset class to achieve this objective.

The focus on risk reduction, over and above return, is also evident in trustee behaviour. The amount of time spent researching new investment opportunities by trustees has reduced from an average of 1.8 hours per week to 1.5 hours per week. Time spent on all other aspects – monitoring performance, administrative and compliance tasks, and acquiring/divesting investments, remained largely on par with 2010.

Further, the proportion of SMSF trustees who believe that equities are too volatile has doubled to one third (32.4%) this year, up from just 17.0%.

Figure 4 – What is the reason for your current allocation to cash? (2011 vs. 2010)

**Multiple answers allowed*
n = 176 (2011), 270 (2010), respondents who have SMSF AND who allocate at least 10% to cash



This is particularly interesting given that when the risk preferences of trustees are compared to members of the APRA regulated funds, trustees express a greater preference for higher risk strategies.

One third of trustees (33.5%) claim to prefer a more risky investment strategy for their superannuation, even though in some years they may earn poor or negative returns, compared to only one quarter of non-trustees that share this preference (24.5%).

Despite the extraordinary events of 2011, self-attributed risk appetite levels amongst trustees remained on par with 2010.

The proportion of trustees with a high risk appetite declined only marginally to 25.6%, from 27.1%, while the proportion with a low risk appetite remained the same (19.9%).

Meanwhile, risk appetites in the APRA fund sector took a bigger hit; the proportion of non-trustees who claimed to have a high risk appetite this year was just 14.0%, down from 17.9% while the number with a low risk appetite jumped to 42.1% from 34.5% in 2010.

This apparent mismatch between risk preferences of trustees and actions makes sense when considered in the context of the qualitative research findings, which suggest that a two-speed investor universe may be at work, with some trustees viewing the current climate as an opportunity, and others running for cover.

Further, the high cash allocations – which seem to fly in the face of the stated preference for risk – could be due to the typically higher asset bases of SMSF trustees, and consequently higher levels of capital protection.

"I'm at about 90% Aussie, all Aussie equities and only about 10% cash."

(Male Focus Group Participant, Accumulator SMSF Trustee)

Given many trustees are self-directed – and the research shows that even those using professional advisors often dictate the investment strategy – there is a need for advice and guidance from professionals around the role of fixed income in portfolios, and the legitimacy of using cash as a long term risk reduction strategy.

Homeland security

One of the consequences of the focus on risk reduction has been that international equities managed funds have fallen out of favour with SMSF trustees.

This is most likely being driven by a broader desire to reduce their equities exposure.

International and domestic equities remain the two most popular asset classes for which managed funds are used, and allocations to both types of managed funds have fallen year-on-year.

The proportion of international equities allocations invested via managed funds has reduced to an average of 29.9% in 2011, down from 42.1% in 2010.

Likewise, the proportion of domestic equities invested in managed funds has dropped, albeit by a smaller margin, to 28.6% from 33.0%.

Overall, some 71.5% of advisors say they are using managed funds to invest SMSF clients' assets in 2011, compared to 77.9% last year.

Those trustees that are using managed funds are using them selectively, seeking out managers that they perceive to be highly skilled.

"There [are] a small number of fund managers who really care about what they do and are competent in what they do."

(Male Focus Group Participant, Retiree SMSF Trustee)

Reflecting their psychographic profiles, trustee coach seekers (43.1%) and outsourcers (42.1%) are more likely than trustee controllers (33.6%) to have invested in managed funds.

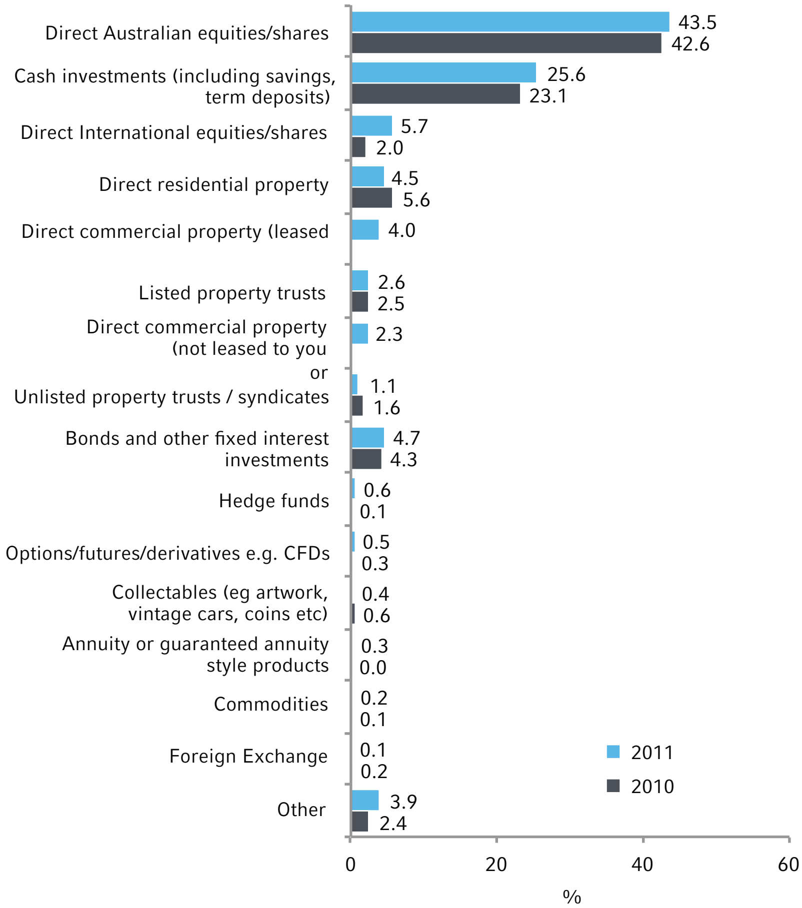
While the take-up of exchange-traded funds (ETFs) by trustees remains low, coach seekers and outsourcers appear to be more likely candidates for using these vehicles, with three in five controllers (61.8%) saying they have not invested in an ETF because they want to choose their own direct shares. Only two in five coach seeker trustees (39.3%) and one in four outsourcer trustees (25.0%) list this as a reason.

The home bias remains evident in trustee asset allocations. On average, 43.5% of trustee SMSF assets are invested in direct Australian equities, on par with last year (42.6%), while only 5.7% is invested in direct international shares.

One quarter (25.6%) is sitting in cash investments, including savings and term deposits, compared to 23.1% in 2010. Some 14.5% is in property – direct residential (4.5%), direct commercial (6.3%), listed property trusts (2.6%) and unlisted property trusts/syndicates (1.1%).

Figure 5 – Please indicate roughly how you have allocated your SMSF assets between the following areas 2011 vs 2010

n = 337 (2011) , 431 (2010), respondents who have SMSF



Asset allocation in 2011, according to advisors, is being driven predominantly by client risk profile (67.3%) and strategic planning for the client (61.0%).

However the third biggest driver is client preferences (55.6%), with life stage playing a similarly important part (52.2%).

So strong is the focus on risk reduction that cost (34.1% vs. 41.2%) and return (32.4% vs. 37.3%) have become much lesser drivers of allocation this year compared to last year.

This is further borne out in the findings that fees and returns have become lesser drivers of SMSF establishment in 2011.

This year, only one quarter of trustees said they set up their SMSF because other types of super funds charge too much (24.9% vs. 36.2%), while only one fifth (21.7%) think they can get better returns themselves, down from 31.8% in 2010.

It is control, not cost, that is the primary establishment driver for SMSF trustees.

However, controller trustees are much more fee-sensitive than coach seekers and outsourcers.

More than one third of controllers (34.4%) set up their SMSF because they believe other funds charge too much, compared to only 22.4% of coach seekers and 5.3% of outsourcers.

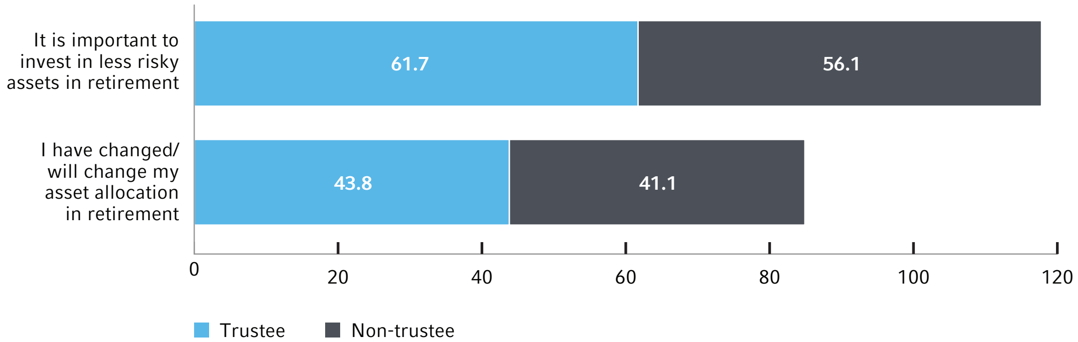
Allocation in retirement

There remains works to be done around educating trustees about the need to adjust their asset allocation in retirement.

One of the key concerns of the Government's Super System Review[16] was that the asset allocation of SMSF members in the pension phase was the same as those in the accumulation phase – however the need for liquidity of pension members is much greater.

Figure 6 – When it comes to investing your superannuation, to what extent do you agree with the following statements?

n = 269 (2011), respondents who are retired AND members of a super fund



While 61.7% of retiree trustees and 56.1% of retiree APRA fund members agree that it is important to invest in less risky assets in retirement, only two in five (43.8%) say they have changed or will change their asset allocation in retirement.

Since the needs of retirees revolve around income requirements, rather than growth, being the focus during accumulation, there is an advice opportunity around the importance of income in retirement, and the need to adjust asset allocations to ensure trustees meet their investment objectives and target income in retirement.

Once again, understanding and advising on the retirement needs of members of SMSFs is very different from ARPA fund members.

This is particularly important given one in five trustees are now in the transition to retirement (TTR) phase (20.5%) and almost one third are retired (31.5%).

The proportion that have moved into both the TTR and retirement phases increased marginally year-on-year, from 18.7% and 30.3% respectively, while the proportion in accumulation phase decreased to 48.0%, from 51.0% in 2010.

16 A Statistical Summary of Self-managed superannuation funds. Australian Government Review into the Governance, Efficiency, Structure and Operation of Australia's Superannuation System, 10 December 2009

According to the Australian Bureau of Statistics (ABS), the number of pre- and post-retirees grew 1.1% over the five years to 2011, to represent some 31.8% of the population (7,199,823 people)[17].

Russell Investments believes any balanced and well diversified portfolio needs an element of growth, but income as a source of return should not be overlooked[18].

In negative return periods, dividends can provide a positive source of return that can minimise the impact of the negative return on the capital component.

Reflecting the importance of SMSFs, more than three quarter of those advising and/or administering SMSFs believe the SMSF structure is a 'very effective' vehicle for meeting clients' retirement needs (76.2%), up from 65.8% last year.

Only 5.3% believe SMSFs are an ineffective vehicle, slightly fewer than in 2010 (7.2%).

Future Growth

"We have a profile of clients we feel are ideal for these services. They tend to have higher net wealth, have been or remain engaged in professional careers (executives etc). We also like to assist those who have set up a fund in the past for a specific purpose i.e. business real property, and are now at or near retirement and to some extent need to restructure, refresh or reallocate their fund to meet next stage of life needs and increased compliance requirements."

(Male financial advisor, 10 years in practice, Vic)

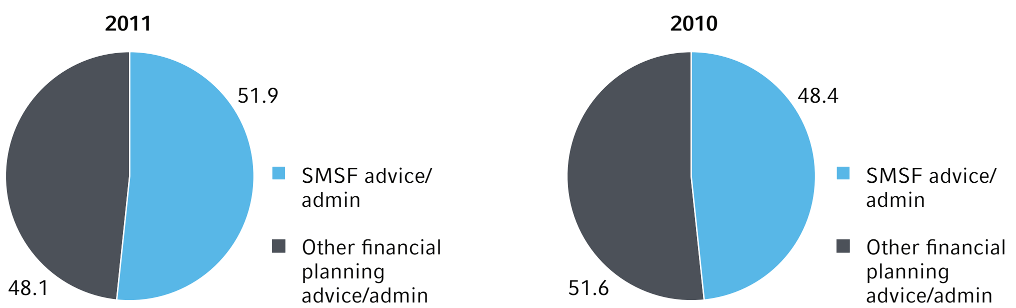
General

For those advisors who are offering SMSF advice and/or administration to clients, SMSFs now make up a majority of assets under advice and administration, increasing to 51.9% from 48.4% last year.

As clients, SMSFs represent some 46.8% of revenue generated for advisors servicing this market, up from 40.4% in 2010.

Figure 7 – What is the proportional asset value split between SMSF and non-SMSF advice/administration you provide?

n = 443, respondents who advise and/or administer SMSFs



17 Australian Bureau of Statistics, Australian Demographic Statistics, June 2011 (released 19 Dec, 2011)

18 'Dividends are the new black', Russell Investments, February 2011

If advisor expectations ring true, the SMSF sector is poised for further growth over the coming 12 months, with three quarters of those advising the trustee market (75.1%) anticipating an increase in the number of SMSFs being established, including (23.9%) who expect a ‘strong increase’.

Indeed, while only one in 10 people without an SMSF say they are likely to set one up within the next two to five years (10.9%), one in seven are likely to do so in more than five years’ time (15.7%).

According to the research, independent financial advisors (IFAs) are commonly advising and/or administering a greater number of SMSFs than aligned advisors, with nearly half of aligned advisors overseeing 10 or fewer SMSFs (44.4%), compared to only 23.5% of IFAs.

Some 29.5% of IFAs oversee more than 50 SMSFs, while only 12.9% of aligned advisors oversee this proportion of SMSFs.

More than half of those servicing this market say they are targeting new types of SMSF clients at least to some extent.

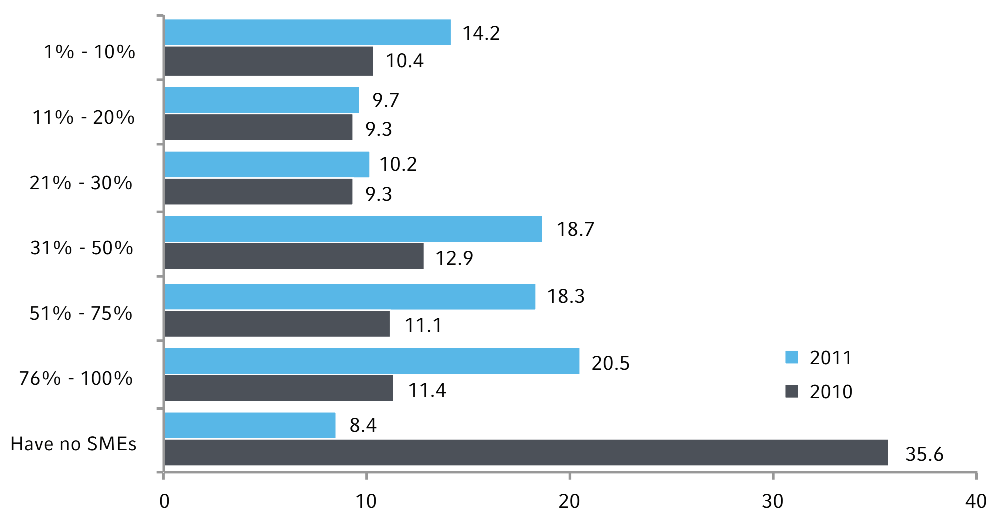
SMEs

Many advisors say they are targeting small to medium enterprises (SMEs) as a means of growing their business, with this segment experiencing a surge in activity over the past 12 months.

This year, two in five advisors (38.8%) claim more than 50% of their client base are small to medium-sized business owners, up from just 22.5% last year.

Figure 8 – Approximately what proportion of your SMSF clients have small to medium enterprises (SMEs)?

n = 443 (2011), 396 (2010), respondents who advise and/or administer SMSFs



According to the ABS, there are around two million SMEs in Australia, including non-employing enterprises[19].

The ABS defines a small business as one employing up to 20 employees, and a medium business as one employing between 21 and 199 employees.

Many advisors claim SMEs are the ideal candidate for an advised SMSF, as it allows them to expand the control they have over their business to control over their superannuation, yet pass on some of the responsibilities to a professional.

When asked which new types of SMSF clients they were targeting, SMEs was a common response.

"SME owners who don't otherwise think about their superannuation. These people generally are the ones that we have seen benefit the most from an SMSF and would not otherwise make super contributions for themselves."

(Female financial advisor, 10 years in practice, Qld)

"Small business people who want control and advice, although don't have the knowledge or the time."

(Male financial advisor, 7 years in practice, SA)

Women

The opportunity for the professional advisor to tap into women as a market segment should not be underestimated.

The gap in both their perceived knowledge and understanding and confidence in achieving their desired income in retirement compared to their male counterparts, make females an ideal target segment for the professional advice industry.

Indeed, the sheer size of the market makes this a lucrative strategy. According to the Association of Superannuation Funds Australia (ASFA), in the financial year 2009-10 women held around 37.0% of total superannuation account balances, compared to 63.0% for men[20].

The disparity between share of account balances has been improving over the years, from a Treasury-estimated share for women of 23.0% in 1994 and 30.0% in 2003-04, the ASFA report notes.

Although the female account balances have increased, the average retirement payouts in 2009-10 were around $198,000 for men and only $112,600 for women.

Good advice at an early lifestage could reduce the average female's reliance on the Age Pension in retirement, and give them more confidence in planning for the future.

While only 16.1% of female respondents currently have an SMSF, women are an inevitable growth segment for the SMSF sector in the future.

19 8165.0 - Counts of Australian Businesses, including Entries and Exits, Jun 2007 to Jun 2009

20 ASFA Research and Resource Centre: Developments in the level and distribution of retirement savings, September 2011

Regulatory hurdles

While the SMSF sector is poised for growth, success in tapping the opportunity presented to advisors and accountants hinges on the ability of the advice sector to navigate the raft of regulatory changes facing the broader superannuation sector.

The FoFA reforms are just one of many pieces of legislation set to reshape the environment for SMSF trustees and advisors alike.

In 2011, the Australian financial services reform agenda included an increase in the Superannuation Guarantee to 12%, the abolition of the age threshold for superannuation contributions, the extension of drawdown relief for account-based pensions to the 2012-13 year, with a 25% reduction in the minimum payment amounts for these products, and proposed rules around auditor independence.

These are all positive developments for the industry that are likely to aid continued growth, however, challenges remain for professional advisors and investors in complying with the magnitude of incoming changes, one of which includes the freezing of the indexation on the concessional contribution cap announced in the 2011 Mid Year Economic and Fiscal Outlook (MYEFO).

"The [great challenge in advising SMSF clients] is the whole uncertainty of FOFA, Ripoll, Henry, etc. All the ridiculous amount of government meddling and uncertainty of constant reviews with bugger all benefit but confusion to super investors"

(Male, 13 years in practice, NSW)

As part of the MYEFO, the Government said it would pause the indexation of the superannuation concessional contributions cap for one year in 2013-14, which will provide savings of $485 million over the forward estimates. This will mean the annual concessional cap for those under 50 will remain at $25,000 until 30 June 2014 (under indexation it would have risen to $30,000 by 1 July, 2013).

The Government has said that it will work with the industry to clarify its position on the proposed new $50,000 annual concessional cap for those over 50, with a balance of $500,000 or less in super, due to take effect from 1 July, 2012.

SPAA and other superannuation bodies have previously called for Government's proposed new $500,000 super balance threshold for those aged 50+ (for eligibility to make concessional super contributions) to be scrapped and replaced by a flat uniform $35,000 yearly concessional super cap for everyone aged over 50, regardless of their current super account balance.

Capping growth

The annual value of member contributions to SMSFs were, on average, more than double that of SMSF employer contributions in the five years to June 2009. Contributions averaged $32.5 billion a year (comprising $23.6 billion from members and $8.9 billion from employers)[21].

Overall, for the five years to 30 June 2009, the proportion of member contributions to SMSFs, versus other types of funds, have generally trended upwards. However, the ATO report notes that more recent events and data from the 30 June 2010 year (which is not included in the report) indicates that the growth rate in member contributions in the superannuation sector has stalled and is now trending downwards.

21 ATO Self-managed super funds: A statistical overview

The finding suggests that the halving of the annual concessional cap from 2010 has had a negative impact on consumers' attempts to self-fund their retirement.

This year's research shows the impact of this restriction is at least $12.4 billion less money in the super system over the 2010-11 financial year, a slight reduction on the previous year's estimated impact, likely due to the impact of the economic turmoil on people's willingness to invest and the high proportion of money being stored as cash in ADIs.

Around two in five SMSF trustees (41.9%) would have contributed extra (on top of the limits allowed) to their SMSF in the last financial year had the restriction not applied, compared to almost half of trustees in 2010 (48.4%).

Of those who would have contributed more, the average contribution would have been $64,875, down from $72,704 in 2010.

According to the ATO, there were 456,472 SMSFs[22] as at June, 2011.

Based on these figures, 191,262 funds would have made extra contributions to their SMSF, collectively contributing $12,408,277,421 in extra concessional contributions in the 2010-11 financial year.

Not surprisingly, HNWIs have been most affected by the caps, although the mass and core affluent were also impacted.

One in five (21.7%) HNWIs would have contributed $50,000 or more had the restrictions not applied, while one quarter (25.6%) would have contributed $50,000 or less.

Slightly fewer core affluent trustees (17.0%) would have contributed $50,000 or more, and 23.7% would have contributed $50,000 or less.

Governments will need to consider the impact of the policy design for future Australian's adequacy and investment pools.

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Conclusion

"If I knew how to do it properly and it would be of benefit to me, it would be silly not to maximise the benefits, right?"

(Female non-trustee, aged 42, QLD)

There remain a number of barriers to SMSF establishment, in many cases merely perceptual barriers, that could nevertheless act as a throttle on growth if left unaddressed.

The industry has a key role to play in educating consumers about the various options available to them, allowing them to make informed decisions about the most appropriate vehicle for their retirement savings.

Lack of knowledge remains the number one barrier to establishment (35.1%), closely followed by the perception that the size of their assets does not justify having one (33.4%).

"With the right help to learn how to do it and how to structure it [I would consider it]."

(Female non-trustee, aged 46, NSW)

This perception of insufficient assets has increased year-on-year, up from 26.5% in 2010, likely due to the adverse impact of the markets on investment portfolios.

However interestingly, when the investment portfolios of those who said their assets did not justify having one are assessed, more than two in five core affluent respondents selected this option (45.4%), as did more than one third of HNWIs (37.7%).

The core affluent are defined as those with between $350,000 and $750,000 in investable assets while HNWIs are defined as those with more than $750,000 in investable assets outside of their primary residence and superannuation, and/or those earning more than $250,000 per annum.

Only one third of the mass affluent (between $50,000 and $350,000 in investable assets) and mass market (less than $50,000) selected this option, a level at which having an SMSF may indeed make sense.

Around one quarter of those in the APRA fund sector perceive SMSFs to be 'too much hassle' (24.9%) or 'too complicated' (24.5%), while a further fifth (19.0%) say they do not have enough time to have an SMSF.

When asked hypothetically if they would consider setting up an SMSF if an advisor or accountant could take care of these issues or assist them in understanding what an SMSF was all about, 15.9% said yes, and more than half (53.5%) were unsure – implying they require more information about the benefits of professional advice before making that decision.

Late last year, SPAA sought to bust the 'myth' that SMSFs are being oversold by financial planners and accountants, and this year's research provides further support for this argument.

Fewer than one in five trustees listed suggestions from either their accountant (16.6%) or financial planner (19.6%) as the reason for establishing their SMSF, revealing that these are not significant drivers of SMSF take up.

The number one driver of establishment remains control over investments (67.1%), followed by control over the future (52.5%).

While the typical candidate for an SMSF is a controller by nature, as the sector shakes off its DIY label new segments are emerging that offer huge opportunity for the financial advice industry.

SMEs, women, coach seekers and younger demographics are ripe segments for an advised SMSF proposition provided advisors can clearly articulate the value they provide.

The findings of this year's research call for a new advice proposition which focuses on utility, leverages regulatory change to reach a broader cross-section of the trustee sector through scoped advice, and offers a more strategic approach to trustee investment portfolios.

Advisors that are able to close the expectation gap between what trustees want and what they are currently being offered will be sure to succeed in the new regulatory environment.

Appendices

Trustee research

Gender	Percent
Female	36.2
Male	63.8
Total	100.0

Age	Percent
21 - 30	4.4
31 - 40	11.5
41 - 50	22.8
51 - 60	28.8
Above 60	32.4
Total	100.0

Occupation	Percent
Professionals	38.4
Managers and administrators	27.2
Advanced clerical and service	7.3
Other	6.1
Intermediate clerical, sales and service workers	5.4
Associate professionals	4.6
Tradespersons and related workers	4.3
Labourers and related workers	2.2
Elementary clerical, sales and service workers	1.8
Homemaker	1.8
Intermediate production and transport workers	0.7
Total	100.0

Household Income	Percent
$50,000 or less	18.5
$50,001 to $75,000	18.1
$75,001 to $100,000	15.8
$100,001 to $125,000	12.8
$125,001 to $150,000	11.7
$150,001 to $200,000	11.7
$200,001 to $250,000	5.9
$250,001 to $350,000	2.9
$350,001 or more	2.6
Total	100.0

State/Territory	Percent
NSW	28.6
VIC	22.8
QLD	21.5
WA	11.7
SA	9.7
ACT	3.9
TAS	1.1
NT	0.6
Total	100.0

Area	Percent
The capital city of my state / territory	65.9
A regional centre	23.6
A rural area	10.5
Total	100.0

Appendices

Trustee research (Cont)

Employment	Percent
Self employed	13.4
Employed full time	45.1
Employed part time	11.4
Engaged mainly in home duties	2.4
Retired	22.6
Not employed at present	2.6
Student	0.5
Other	2.1
Total	100.0

Education	Percent
Primary	0.2
Part of high school	7.8
Completed high school	12.7
Diploma or certificate qualification (inc Trades)	27.8
Degree qualification	24.5
Postgraduate qualification	27.0
Total	100.0

Marital Status	Percent
Single	12.0
Living with partner/married	75.7
Separated/divorced/widowed	11.5
Other	0.8
Total	100.0

Investment Portfolio	Percent
I have no investments	6.3
$50,000 or less	9.1
$50,001 to $150,000	14.0
$150,001 to $250,000	10.2
$250,001 to $350,000	8.5
$350,001 to $450,000	8.8
$450,001 to $550,000	6.3
$550,001 to $650,000	3.9
$650,001 to $750,000	3.6
$750,001 to $1 million	9.9
More than $1 million to $3 million	15.4
More than $3 million to $5 million	2.7
More than $5 million	1.3
Total	100.0

Trustee vs. Non-trustee	Percent
Trustee	24.0
Non-trustee	76.0
Total	100.0

Advisor research

Gender	
	Percent
Female	20.2
Male	79.8
Total	100.0

State (Practice)	
	Percent
NSW	29.8
VIC	30.0
QLD	18.7
WA	9.1
SA	8.7
ACT	2.2
TAS	0.7
NT	0.8
Total	100.0

Years as Advisor	
	Percent
10 years and below	42.2
11 to 20 years	39.6
21 to 30 years	14.2
More than 30 years	4.0
Total	100.0

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CoreData is a Sydney-based market research and consultancy firm, specialising in financial services research. Founded in 2002 to bridge the gap between high-quality market intelligence and insight, the group provides research and consulting solutions to financial services companies in Australia, China and the United Kingdom.

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