Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates

4 – 6 June 2013

Question: BET 59

Topic: Self-Managed Superannuation Funds Taskforce

Written: 17 June 2013

Senator MILNE asked:

59. ASIC stated In a response to a question on notice to supplementary estimates (SBT 5) that it had a taskforce looking at the suitability of self-managed superannuation funds for 'mum and dad' investors and the quality of advice they received. It was due to report in the first half of 2013. By December 2012 ASIC would receive a report by Rice Warner to determine the point at which a SMSF becomes cost effective relative to an APRA regulated fund.

a. What did Rice Warner conclude?

b. When will the SMSF report be released?

c. What conclusions has the taskforce reached so far?

Answer:

59.

a. ASIC commissioned Rice Warner Actuaries (Rice Warner) to examine the minimum cost effective balance for self-managed superannuation funds (SMSF). Rice Warner found that the cost-effectiveness of an SMSF is very much affected by the amount of work the trustee is prepared to do themselves in administering the fund. As such, there will be a range of fund balances at which an SMSF will be cost-effective compared with an APRA-regulated fund.

In summary, Rice Warner found:

SMSFs with balances of...	Findings...
(a) $100,000 to $200,000	can be competitive with traditional retail personal superannuation plans provided the trustees undertake some of the administration
(b) $200,000 or more	can provide equivalent value to industry and retail funds provided the trustees undertake some of the administration
(c) $500,000 or more	can provide equivalent value to industry and retail funds on a full service basis

b. We released Report 337 *SMSFs: Improving the quality of advice given to investors* (REP 337) on 18 April 2013. This report is referred to below.

We propose to release Rice Warner's report as part of an ASIC consultation paper. The consultation paper will set out our proposals to:

- require advice providers to give specific disclosure requirements; and
- examine SMSF costs associated with setting up, running and winding up an SMSF so that we can develop guidance to improve the quality of advice about SMSFs.

ASIC's REP 337 stated that we would be releasing two consultation papers to deal with these issues. We now intend consult on these issues in a single consultation paper and plan to publish it before the end of August.

c. In late 2012, we conducted a surveillance of 18 entities that provided a financial service involving the establishment of an SMSF. The entities represented a combination of Australian financial services licensees and accountants. The entities were selected based on a combination of factors, including their size and prominence in the SMSF market, their level of advertising and, in some limited cases, their complaints history.

The purpose of our surveillance activity was to:

- develop a high-level picture of the types of investors seeking SMSF advice over a six-month period in 2011; and
- test the quality of SMSF advice provided to investors.

We reviewed over 100 pieces of advice given to retail clients about establishing an SMSF. The majority of files we selected to review had a fund balance of $150,000 or less and included at least one of the following features:

(a) older members (i.e. members at, or close to, retirement age at the time of establishing the SMSF);

(b) members with a low income;

(c) borrowing; and

(d) investment in a single asset class (e.g. real property).

It is important to note that we did not select a random sample of files for review. Instead, as noted above, we targeted files that looked more likely to be higher risk for SMSF members.

We rated the personal advice we reviewed as good, adequate or poor. While we concluded that the majority of investors received adequate advice, we did find concerning pockets of poor advice. Much of this advice involved recommendations that investors set up an SMSF to gear into real property.

On 18 April 2013, we released Report 337 *SMSFs: Improving the quality of advice given to investors* (REP 337), which sets out the detailed results of our surveillance.

While REP 337 noted that the majority of advice provided to SMSF clients as part our file review was of an adequate quality, the report did highlight that 28% of the advice examples were poor. Our report demonstrated that there is significant room for improvement in the quality of SMSF advice that clients receive.

Following our surveillance, and as discussed at question (b) above, we plan to release a consultation paper which will deal with additional disclosure obligations for providing SMSF advice and the costs associated with SMSFs.