

CPA Australia

A Financial Advisory Services Research Report

Self Managed Super Funds

October 2004



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Level 28, 385 Bourke Street
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ISBN 1 876 874 619

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Contents

Executive summary	1
About this research	3
Research findings	4
A summary of the advisers' results	4
A summary of the results relating to individuals & small business owners	9

Executive summary

The aim of this research report is to provide a snapshot of the self managed superannuation fund (SMSF) market, identify the reasons why SMSFs are established and the advice and services trustees seek from accountants or financial planners.

Research was conducted by Worthington Di Marzio on behalf of CPA Australia. Interviews were carried out with 300 CPA public practitioners and 200 financial planners (of which, 102 are CPAs). Interviews were also separately carried out with 100 random individuals and business owners who have an SMSF.

Results showed that up to a third of SMSF members do not recognise themselves as trustees, and of those that do, 15 per cent felt that they did not have a good understanding of their obligations.

SMSF trustees have a much greater responsibility and are ultimately responsible for the operation of their superannuation than those who are in other funds. There are a number of obligations SMSF trustees must meet under superannuation law. The research indicates that SMSF trustees are not fully aware of their legal obligations and their level of responsibility.

These responsibilities include:

- Saving only for retirement;
- Having an investment strategy and investing responsibly;
- Keeping proper records;
- Keeping super assets separate;
- Not lending super money to members or relatives;
- Not borrowing money;
- Being aware of the rules when buying assets from related parties; and
- Knowing and adhering to the in-house asset, contribution and payment rules.

The implications for SMSF trustees are significant. Trustees found to be in breach any of the requirements of the law can attract significant penalties imposed by the Australian Tax Office. These range from fines, loss of tax concessions for the fund, and even imprisonment for some serious offences. They can also be barred from acting as a trustee and no longer be able to run their own superannuation fund.

The research also found that one third of the SMSF owners did not have or did not know their funds' investment strategy, one of the key responsibilities of an SMSF trustee.

Other findings of the research include the following:

- Most CPA public practitioners and three quarters of financial planners surveyed have clients with an SMSF. Only 40% of these public practitioners directly service their clients' funds while 75% of planners directly provide advice or services.
- The majority of SMSFs serviced range in size from \$120,000 to \$450,000. The average size for public practitioners' clients was \$335,000 and \$400,000 for the financial planners' clients.

- Respondents estimated that about half their clients' investments were held in equities and only 22% in business real estate. Similarly, just over half of the SMSF owners indicated their funds invested in equities, although a third indicated they held business real estate and two thirds held cash or fixed interest.
- The main reason the establishment of an SMSF is recommended is control, followed by flexibility, tax advantages and a good way of planning towards retirement. SMSFs are usually recommended against if there are insufficient funds or an inability to maintain contributions, followed by the need to have a certain level of confidence, skills and knowledge, and the cost.
- Of the individuals surveyed, 20% have or have had an SMSF, 9% have considered and rejected using an SMSF and the majority have never had or considered having an SMSF. In contrast, of the small business owners surveyed, 70% have or have had an SMSF and only 14% have never had or considered having an SMSF.
- Of the individuals surveyed, the reasons they gave for forming an SMSF was in order to control their own financial affairs, as well as for flexibility, tax advantages, expected better returns and lower costs. Reasons given for not using an SMSF include satisfaction with current fund, lack of knowledge, inability to afford super, and the perceived costs and red tape involved. Most respondents were satisfied with having an SMSF or their decision not to have one.
- When deciding to use an SMSF, individuals tend to be influenced by their financial planner or family and friends, while small business owners tend to be influenced by their accountant. A similar pattern is seen with SMSF services, with individuals favouring financial planners and small business owners favouring accountants.
- From the information provided by the SMSF owners surveyed, the average value of their funds was just over \$400,000, with the average increasing with age.
- Individuals estimated the annual cost of maintaining their SMSFs to be on average \$1,242 annually, while small business owners estimated it to be \$1,854 annually.

About this research

Research into SMSFs was conducted by Worthington Di Marzio on behalf of CPA Australia. The aim of the research was to provide a snapshot of the SMSF market, identify why SMSFs are or are not used, and identify the advice and service providers used.

The research was targeted at:

- CPA public practitioners at large (300);
- Financial planners at large (200) and CPAs who are financial planners (102) with the latter selected on the basis of them also being members of the Financial Planning Association (FPA); and
- Those who have a self-managed superannuation fund including individuals and small business owners (100).

Telephone interviews were conducted with random samples of each of these targets spread across the nation. The number of interviews conducted with each is shown in brackets above.

Similar questions were asked of the advisers represented by the top two targets above, but a different line of questioning was pursued for the SMSF holders. Accordingly, this report has been separated into two sections, concentrating firstly on the findings for the advisers and then on the SMSF holders.

Research findings

A summary of the advisers' results

Incidence of clients with a self-managed superannuation fund (SMSF)

87 per cent of CPA public practitioners and 75 per cent of the financial planners have clients with an SMSF.

74 per cent of the financial planners with such clients do provide advice or services to these funds; among public practitioners it is only 40 per cent.

Among those financial planners who do not provide advice or services to SMSFs, 56 per cent expect to do so and the corresponding percentage among the public practitioners is 32 per cent.

Table 1 summarises the extent to which respondents here actually provide or expect to provide advice or services to SMSFs. It is based on re-percentaging the results above to the total sample.

Table 1: Provision of SMSF advice & services

Provide SMSF advice / services now...	CPA Public Practitioners %	Financial Planners...		
		Randoms %	CPAs %	TOTAL %
Yes	35	55	59	56
No, but expect to	21	28	18	25
No, and don't expect to	44	18	24	20

Specific SMSF services provided & outsourced

Table 2 illustrates that virtually all those providing services to SMSFs provide at least one of the services shown.

Table 2: Specific SMSF services provided

Provided by respondent...	CPA Public Practitioners %	Financial Planners...	
		Randoms %	CPAs %
Fund establishment	58	39	50
Preparation of trust deeds	3	7	5
Administration	66	44	55
Audit	61	25	37
Investment management	15	84	77
Insurance	10	73	43
Broad investment advice	39	94	82
Specific product recommendations	15	92	75
Training to trustees on their obligations as a trustee	61	58	68
ANY OF THE ABOVE	94	99	100

It is not shown above, but the survey also found that in just over 40 per cent of the cases there are others in the respondent's firm who provide such services.

Public practitioners are more likely to provide administration, audit and fund establishment services than the financial planners. Conversely, the financial planners are more likely to provide specific product recommendations, broad investment advice, insurance and investment management services than the public practitioners. The first three of these services are also more commonly provided by the randomly selected financial planners than the CPA financial planners who are members of the FPA. A similar majority of all segments provide training to trustees on their obligations as a trustee.

Table 3 shows that almost all advisers also outsource such services, albeit to varying degrees in terms of individual services. Prominently outsourced by the public practitioners are preparation of trust deeds, insurance and investment management. These public practitioners tend to favour external financial planners when they outsource the following – specific product recommendations, broad investment advice and investment management. However, they are more likely to favour an SMSF specialist when they outsource most of the other services.

Table 3: Specific SMSF services outsourced

Outsourced services...	CPA Public Practitioners %	Financial Planners...	
		Randoms %	CPAs %
Fund establishment	34	57	45
Preparation of trust deeds	91	87	97
Administration	16	44	30
Audit	33	61	55
Investment management	52	7	12
Insurance	55	15	33
Broad investment advice	37	3	10
Specific product recommendations	46	4	15
Training to trustees on their obligations as a trustee	19	27	23
ANY OF THE ABOVE	95	93	98

Among the financial planners, a majority outsource the preparation of trust deeds, audit and fund establishment. The financial planners are much more likely to involve an SMSF specialist than other alternatives when they outsource services in this area.

Almost a quarter of advisers also offer services on SMSFs other than those listed opposite. Among the public practitioners such other services tend to be in general accounting and taxation fields, whereas among the financial planners they tend to be related to investment strategies and advice including stockbroking.

Estimated number & type of clients with SMSF

Among the public practitioners who advise or service clients with SMSF, results showed that the average number of these funds is 53. Among the randomly selected financial planners this average is 40 and among the CPAs who are member of the FPA this average is 45.

Table 4 indicates that the public practitioners have a majority of SMSF clients in the small business owners segment, whereas the others have about half of their clients in that segment.

Table 4: SMSF clients

	CPA Public Practitioners %	Financial Planners...	
		Randoms %	CPAs %
Mean % of SMSF clients who are... Small business owners	75	48	52
Individuals / families who are not retired	15	30	30
Individuals / families who are retired	10	22	18

Main reasons for recommending to clients that they establish or do not establish an SMSF

The main reason the Advisers recommend establishment of an SMSF is...

'gives control over investments / savings'

For public practitioners, *tax advantages* followed by *a good way of planning towards retirement / the future* are also relatively prominent influences. Among the financial planners, *flexibility* is the second most influential factor.

The main reason given by each segment for recommending against the establishment of a self-managed superannuation fund is...

'if insufficient capital funds / inability to maintain contributions'

This is followed by...

'need a level of confidence / skills / knowledge to run SMSF / can be expensive to set up / on-going costs / audit costs'

Main sources of support or assistance for providing SMSF advice / services

Although quite a range of sources of support are relied upon by those providing advice / services on SMSF only a couple of external sources were mentioned by 10 per cent or more. These include CPA Australia and the FPA. These respondents tend to obtain support or assistance internally more than any other source, particularly the financial planners.

Options considered when providing advice to establish an SMSF

Those respondents who provide advice about establishing SMSFs were asked which alternatives they considered at that time and to estimate for what proportion of clients they actually recommend each alternative. We have summarised the responses in Table 5.

Table 5: Other options considered & recommended when advising SMSF clients to establish an SMSF

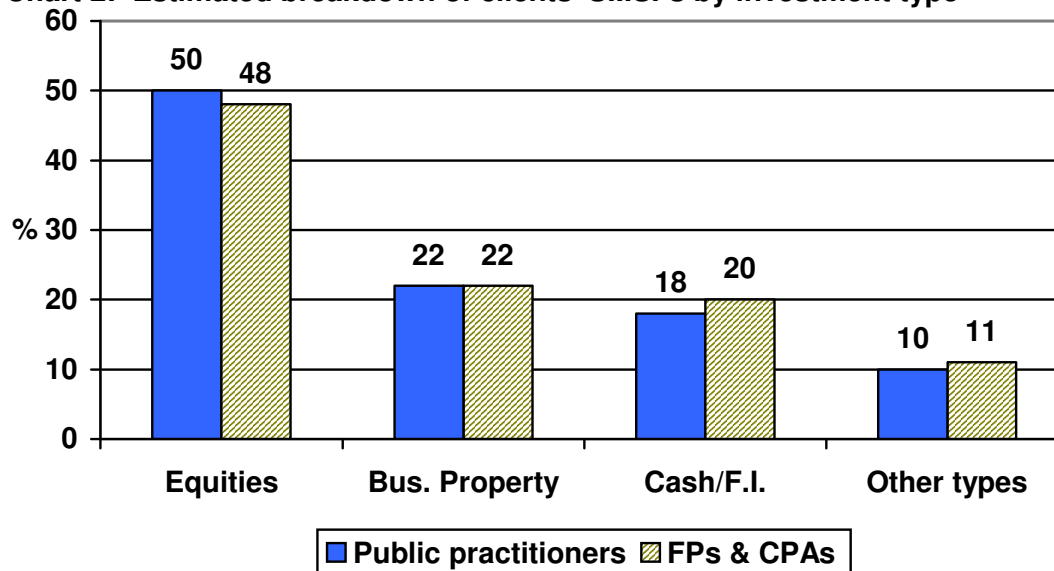
	Option Considered for SMSF Clients %	Mean % Recommending This Option
Financial planners (CPAs)...		
SMSFs	-	46
Retail funds	40	19
Industry funds	40	9
Small APRA funds	27	14
Master Funds and Wraps	67	38
Remain in current fund	50	11
Financial planners (random)...		
SMSFs	-	34
Retail funds	56	25
Industry funds	40	18
Small APRA funds	26	5
Master Funds and Wraps	79	38
Remain in current fund	42	14

It can be seen that each of the alternatives attracts a fair degree of consideration and actual recommendation, although some segment differences do exist. The CPA financial planners tend more towards recommending SMSFs and small APRA Funds, while the other financial planners tend more towards the commercially available funds such as retail and industry funds and master funds and wraps.

Estimated breakdown of clients' SMSFs by investment type

Chart 2 illustrates that there is not much difference between segments in terms of the investment type breakdown of their clients' SMSFs. Equities are more than twice as popular as any other investment alternative, making up around half of the total investment in these portfolios.

Chart 2: Estimated breakdown of clients' SMSFs by investment type



Use of Managed Funds and various administration options

64 per cent of public practitioners and 88 per cent of the financial planners said that they use Managed Funds in conjunction with SMSFs for the clients.

Public practitioners mainly use an internal administration system to administer their clients' SMSFs, whilst among the financial planners this option is not quite as popular as the use of Wraps.

Estimated average size of funds in clients' SMSFs

Table 6 shows us that most of the SMSFs for which our respondents advise or service have values between \$120,000 and \$500,000. On average the estimated size is \$355,000 within the public practitioners' base and over \$400,000 among the financial planners.

Table 6: Estimated average size of funds in clients' SMSFs

	CPA Public Practitioners %	Financial Planners...		
		Randoms %	CPAs %	TOTAL %
Under \$120,000	11	1	-	1
\$120,000 to \$250,000	33	19	30	23
\$250,000 to \$500,000	38	56	48	55
\$500,000 to \$1 million	14	19	17	18
Over \$1 million	2	2	3	2
Don't know	1	2	2	2
(Mean \$'000s)	(355)	(430)	(419)	(426)

A summary of the results relating to individuals & small business owners

SMSF incidence/consideration among our individuals/small business respondents

Chart 3 provides some perspective data on our samples of individuals and small business owners in terms of SMSF incidence. 29 per cent of individuals either have or used to have or have considered an SMSF before, with almost half of those having rejected this option (13 per cent of the 29 per cent).

The small business owner sample is not representative of small business owners at large because we were primarily looking for those with an SMSF. Nevertheless, results show that among those small business owners without one now (37 per cent) a majority have rejected this option (23 per cent of the 37 per cent).

Chart 3: SMSF incidence/consideration among our individuals/small business respondents

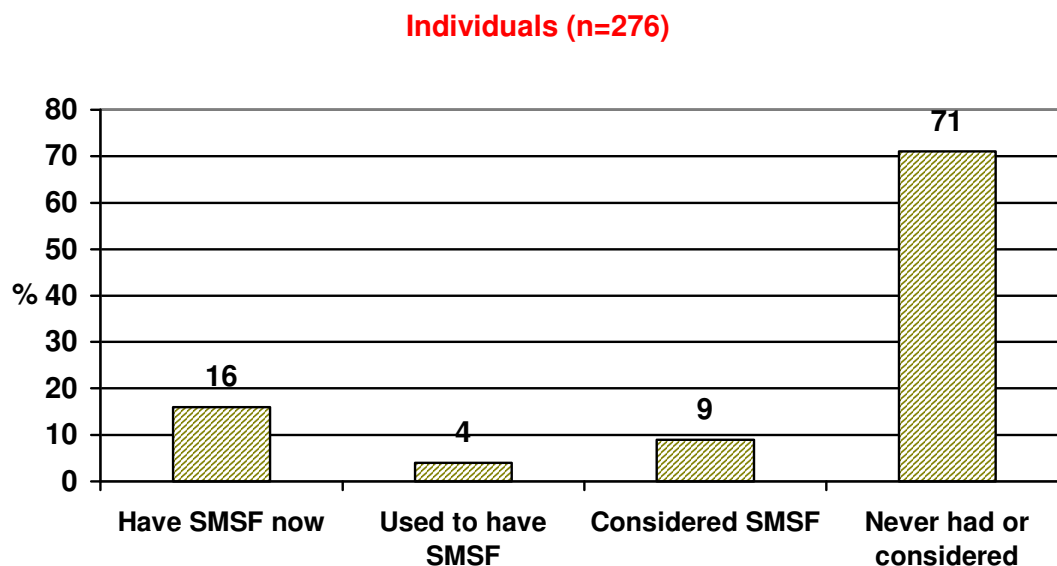
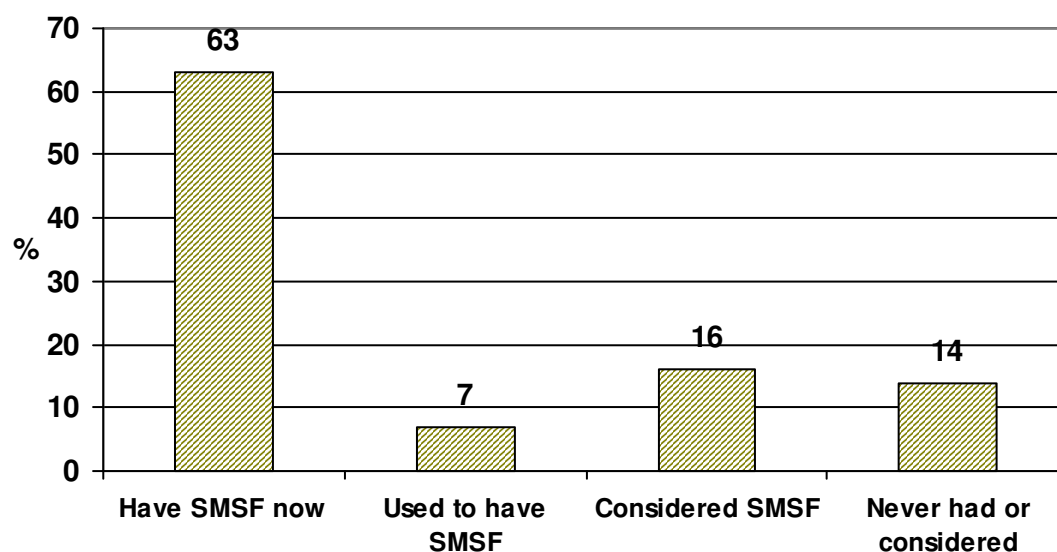


Chart 3 (cont): SMSF incidence/consideration among our individuals/small business respondents

Small Business Owners* (n=91)



Note: * Individuals' sample was random and representative of that market, but SB owners were mainly picked up from the individuals sample and some booster interviews. Hence the incidences for SB above are not representative of that market as a whole, only of our SB respondents.

Main Reasons for having and rejecting SMSF

The main reason for having an SMSF in both segments is 'control' over one's investments and future. Other influences of note are flexibility, recommendation, tax advantages, expected better returns and lower costs / fees.

Rejection of an SMSF has been due to:

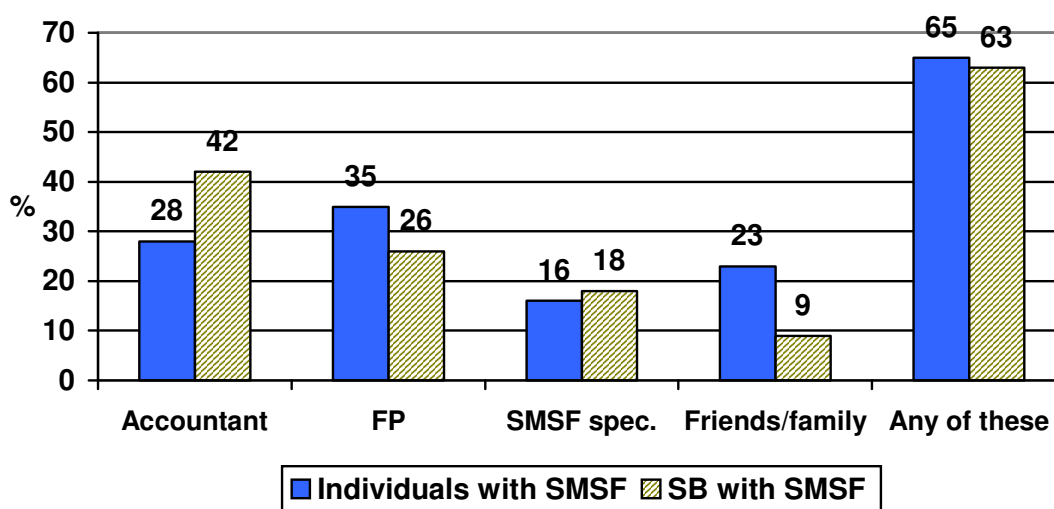
- satisfaction with current situation or fund (at work);
- lack of knowledge with SMSF;
- inability to afford superannuation — student, unemployed, 'poor'; and
- costs and / or red tape perceived to be significant.

Influence of various sources on decision to have or not have an SMSF

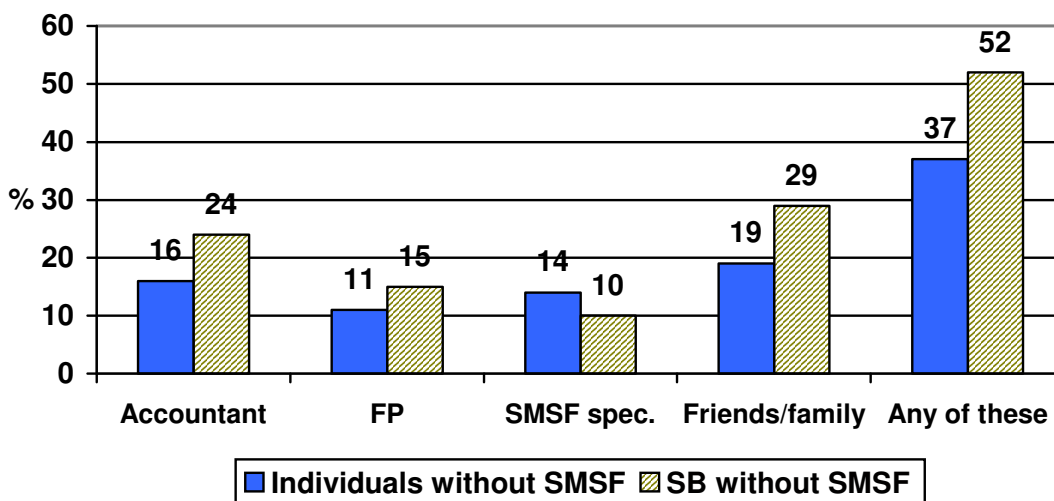
The top part of Chart 4 illustrates that almost two thirds of the SMSF holders have been influenced to a major extent by at least one of the four sources shown. However, accountants have influenced small business owners most whilst financial planners and friends / family have influenced individuals to a greater extent than small business owners.

Chart 4: Influence of various sources on decision to have or not have an SMSF

Had 'major influence' on SMSF take-up



Had 'major or minor influence' on SMSF rejection *



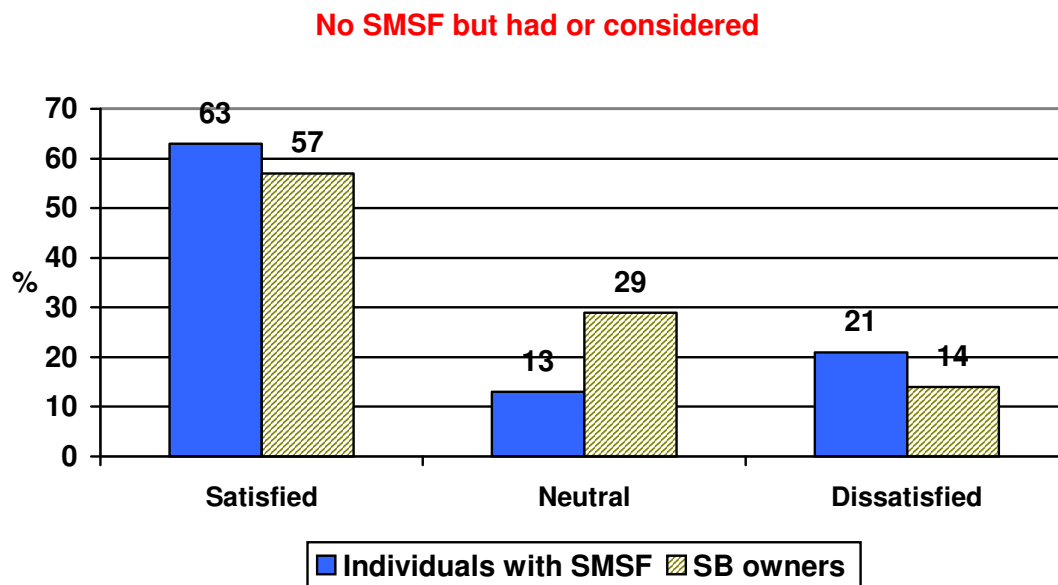
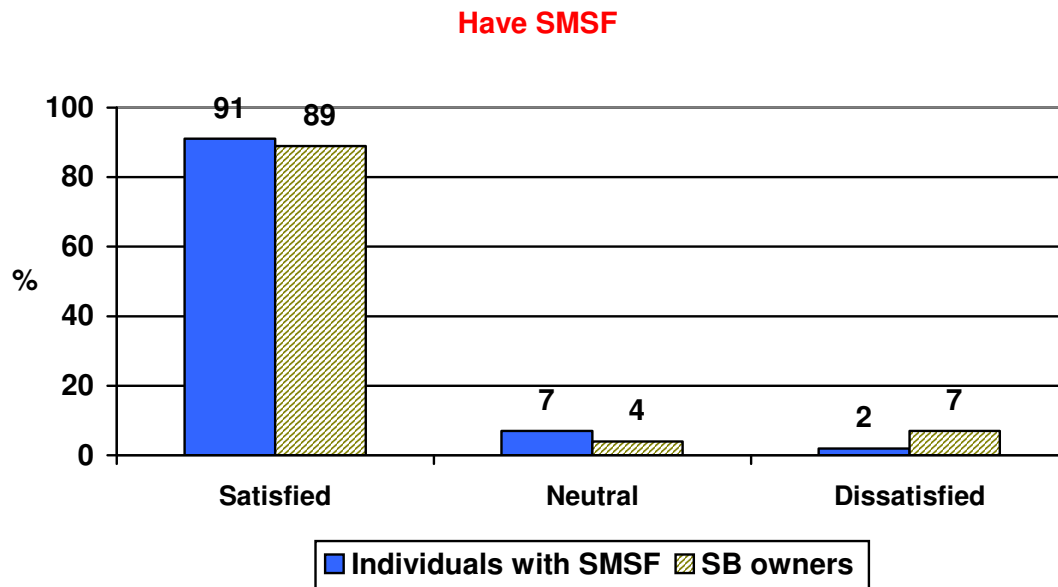
- Notes:
- * Relates to those who had or considered an SMSF but do not have one now.
 - FP = Financial planner.
 - Spec. = Specialist.

Such sources have had less of an influence on rejectors of SMSF which can be observed in the bottom part of Chart 4. Nevertheless, their influence is not insignificant, with solid proportions of the rejectors saying that at least one of these sources had either a minor or major influence.

Satisfaction with SMSF or with decision not to have one

Those with an SMSF are nearly all satisfied about that decision, as the top part of Chart 5 testifies. The main reasons are that their fund is performing well and they have control.

Chart 5: Satisfaction with SMSF or with decision not to have one

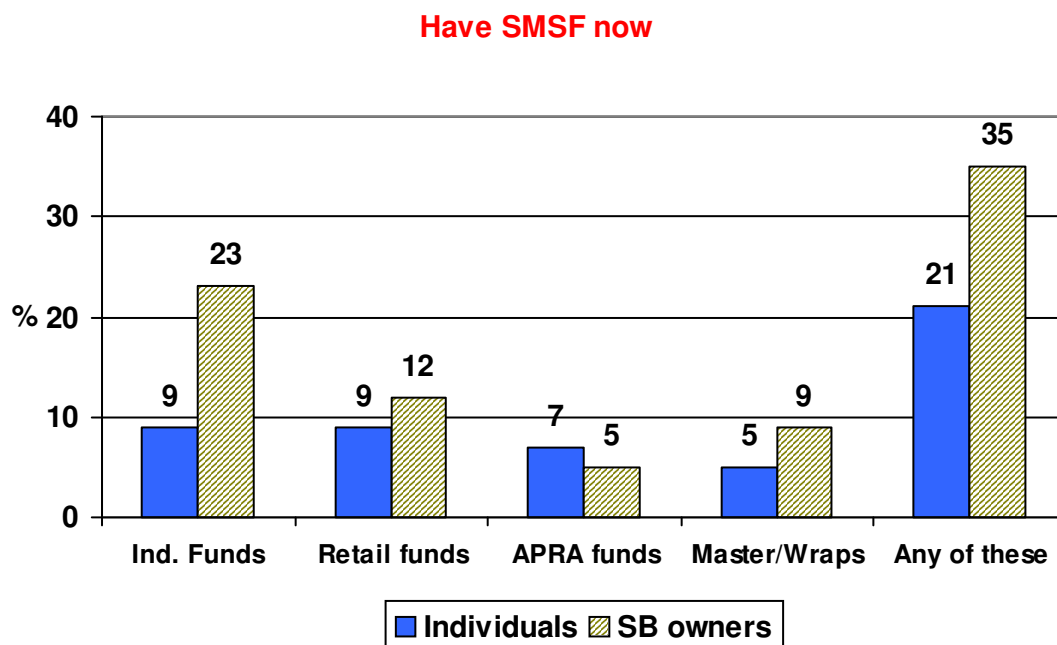


Those who have rejected this SMSF option are also mostly satisfied with their decision, although reasonably sizeable minorities are neutral or dissatisfied. Those rejectors satisfied here are mainly happy with their current strategy / fund and some mentioned barriers like costs, complex administration / difficulty, poor expected returns and lack of investment capital. Lack of money or youth / lifecycle stage were issues for the neutral and dissatisfieds.

Alternatives Considered to SMSF

Chart 6 tells us that just over a third of the small business owners and one in five individuals with an SMSF did consider other alternatives, like the four shown. However, apart from Industry Funds, in the case of the small business owners none of the other alternatives was considered by many.

Chart 6: Alternatives Considered to SMSF



Among those without an SMSF we found that just under half have super in one of these options, viz:

	Individ. (231) %	SB (34) %	TOTAL (265) %
An industry fund	33	29	32
A retail fund	6	9	7
A small APRA fund	-	-	-
A master fund or Wrap service	2	9	3
None of the above	53	53	53

Use of various sources for advice / assistance on SMSF in certain areas

Below we see that accountants and financial planners are the most commonly used sources of advice / assistance here, with the accountants more popular among small business owners and the financial planners among the individuals.

Those with SMSF use(...) for...		Accountant %	FP %	SMSF Spec. %	Stock Broker %	Others %	Any of These %
Preparation of Trust Deeds	Individ.	23	30	2	2	14	65
	SB owner	44	14	7	-	13	70
Administration of Fund	Individ.	26	37	5	-	7	70
	SB owner	54	16	9	4	6	74
Auditing of Fund	Individ.	30	23	5	5	8	72
	SB owner	58	11	7	-	4	79
Investment advice	Individ.	14	42	2	5	7	67
	SB owner	26	23	-	14	10	65
Training on Trustee Obligations	Individ.	21	19	2	-	7	49
	SB owner	37	9	7	-	4	49

Understanding obligations as a Trustee

67 per cent of the individuals and 79 per cent of the small business owners with an SMSF said they were the trustee. Among those, 72 per cent of the former and 91 per cent of the latter feel they have a good understanding of their obligations as a trustee.

SMSF investment strategy

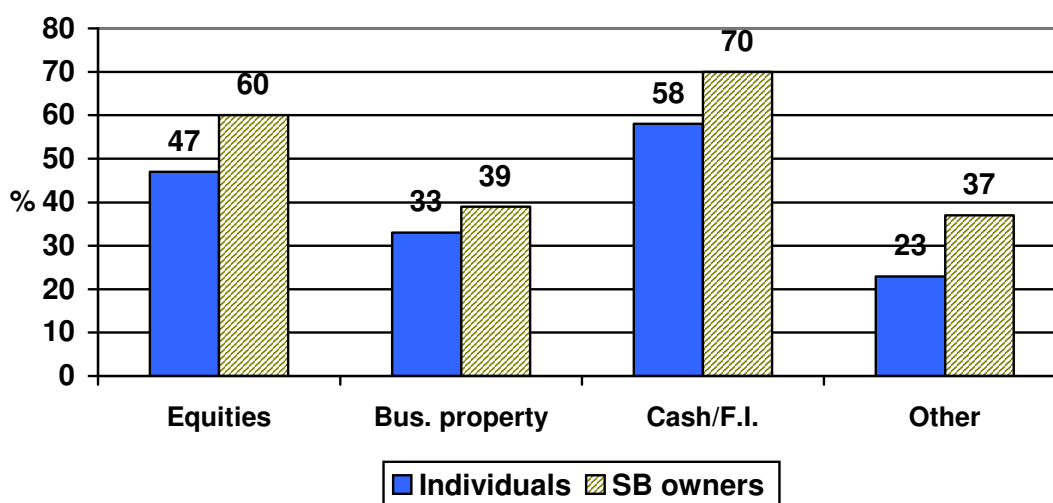
When asked to describe their investment strategy, around one-third of those with an SMSF claimed not to have (15 per cent) or did not know (17 per cent) the investment strategy of their fund. The rest mostly referred to property and / or shares with some references made to risk, growth and term (long-term) elements.

69 per cent of SMSF owners indicated their investment strategy was documented in some way.

Chart 7 highlights the investment type breakdown of the SMSF. More than half the funds invest in equities and up to two thirds hold cash and fixed interest. Around a third of funds invest in business real property.

Chart 7: Types of Investments Held in SMSF

SMSF holders with any of these investments



Note: F.I. = Fixed Interest.

Size and costs of the SMSFs

On average, the SMSFs hold a value of just over \$400,000 with the individuals' funds a little bigger, viz:

Size of SMSF...	Have an SMSF		
	Individ. (43) %	SB (57) %	TOTAL (100) %
Under \$120,000	26	28	27
\$120,000 to \$250,000	26	21	23
\$250,000 to \$500,000	19	26	23
\$500,000 to \$1 million	9	11	10
Over \$1 million	9	5	7
Don't know	2	2	2
Refused	9	7	8
(Mean \$'000s)	(448)	(380)	(409)

The average size of the fund, not surprisingly, increases with age.

The annual costs of keeping their fund were estimated to be on average \$1,242 p.a. by the individuals and \$1,854 p.a. for the small business owners.

We also found that the SMSFs are mostly in the accumulation rather than pension phase, viz:

Current phase of SMSF...	Have an SMSF		
	Individ. %	SB %	TOTAL %
Accumulation phase building up for retirement	65	91	80
In pension phase using it to draw an income	33	9	19