



www.SuperSystemReview.gov.au

OPINION-EDITORIAL

ON

SMSFs to stay focused on the main game: retirement savings

Jeremy Cooper
Chair
Super System Review

Published in *The Age*
Thursday, 29 April 2010

Australia's self-managed superannuants need to stay focused on investing for retirement savings, rather than related party transactions, collectables and leverage. Do that, and self-managed super funds start to look much more like the legitimate vehicles for retirement savings that they actually are.

That is one of the key messages from the Super System Review Panel in its most recent preliminary report, this time dealing with self-managed super funds (**SMSFs**).

And the good news is that the vast majority of SMSFs are doing exactly that: staying focused on the main game of building retirement savings and eschewing many of the practices that have sometimes cast the sector in a bad light.

That's a big tick for the participants in a sector that now has almost a third of Australia's \$1.2 trillion dollar super pot. That's right, roughly one in every three dollars in the superannuation system is held in an SMSF. But that's the not the end of the story. On the face of it, the SMSF sector performs at least as well as the larger super funds run by the wealth management industry, industry super funds and so on.

SMSFs are a unique retirement savings vehicle where the members (who are also the trustees, but for simplicity I will just refer to them as members) take all the responsibility for their super.

The changes the Panel recommends are aimed at ensuring that the sector can continue to prosper in an improved environment with enhanced 'gatekeepers' in the form of more knowledgeable and competent, independent auditors and licensed advisers.

The Panel supports members keeping control over their SMSFs so it is not proposing compulsory education for members or requiring third party custodians to hold SMSF assets. The Panel believes that SMSFs should be largely free from government intervention. At the same time, the public has a genuine interest in SMSFs arising from the generous tax concessions they get and the fact that the social security system underwrites part of the investment risk for all super funds in the event of failure. It is a matter of keeping these interests in balance.

The Panel's preliminary recommendations are designed to improve the safety and integrity of SMSFs, while continuing to allow a high degree of self-determination and flexibility for members who take responsibility for their own retirement outcomes.

Key preliminary recommendations include proposals:

- that the members should keep ultimate control of their SMSFs;
- for strengthening the competence and independence of approved auditors;
- for better industry data and an online SMSF resource centre to help SMSF members build skills and make better decisions;
- making the ATO's penalty regime more flexible to enable more effective and equitable regulation;

- tightening the SMSF registration process, including the introduction of member identity requirements, to reduce instances of fraud and illegal early release schemes using SMSFs;
- that assets such as jewellery, wine collections, exotic cars and race horses, while being good investments for some people, are not regarded as suitable assets for superannuation purposes and should be held outside SMSFs.

In all instances where the Panel is recommending changes to currently permitted investment options, it is proposing grandfathering, or extended transition periods, as appropriate.

The Panel remains concerned about the number of small-sized SMSFs in the sector that are not cost competitive with an account in an APRA-regulated fund. At June 2008, there were roughly 108,000 SMSFs with less than \$200,000 in assets and more than a third of those had less than \$50,000 in assets. The Panel is exploring ways to curtail the entry of people not suited to SMSFs by a combination of better standards of advice and another 'gatekeeper' mechanism, such as a web-based portal that could allow a prospective SMSF member to assess their suitability for the special risks and responsibilities of the SMSF environment and to understand the minimum asset size necessary to make an SMSF cost competitive with an account in an APRA-regulated fund. The Panel has not yet reached a view on this issue.

In making its recommendations, the Panel is seeking to enable members to continue their good work in building their retirement savings, while imposing minimal intervention to improve the standards of service providers and the role of 'gatekeepers', such as auditors, and provide a sound base for the future development and growth of the sector.

Further information about the Review and published preliminary reports can be found at www.supersystemreview.gov.au.

Jeremy Cooper
Chair
Super System Review