The Latest SMSF Statistics

In December 2014, the Australian Taxation Office (ATO) published the 2012/2013 statistical report. I have outlined 10 interesting SMSF statistics from the report below that shed important light about both trustees and professionals within the SMSF sector.

Younger entrant growth continues to rise
With the SMSF sector growing by about 29 per cent between 2010 to 2014, it is the continuing evolution of younger trustees that is starting to shape the future direction of services to SMSF trustees. Whilst 82 per cent of members were aged 45 years and older, the sector is now seeing significant growth in the 35-44 age bracket. What is interesting is the crossover point in the chart below with age ranges between SMSF and non-SMSF members, which shows that more individuals from their mid-30s are considering SMSFs than ever before.

The ATO has indicated within the report that for the first time, the median age of SMSF members of newly established funds in 2013 was below age 50. Overlaying the average taxable income of SMSF members under 50 ($124,000), you begin to understand how larger amounts of mandated and non-mandated contributions by these individuals are pushing forward these considerations of starting an SMSF earlier than ever before.

Rationalisation of service providers is occurring
Historically referred to as a ‘cottage industry’, the SMSF sector has and continues to fundamentally change. Whilst the disruption to the SMSF industry is still in its infancy, it has become obvious that a rationalisation of service providers was going to occur. In the first instance, regulatory change to improve competency standards has seen a trimming in the number of approved SMSF auditors that now fall within the jurisdiction of the Australian Securities & Investment Commission (ASIC). Recently, ASIC cancelled the registrations of 440 auditors as a result of this increased competency focus.

A similar rationalisation of accountants is occurring with the number of SMSF registered tax agents, which declined to around 13,000. Over the past five years, the average number of funds per tax agent has grown from 21 to 31 funds, and at the same time seen a 10 per cent reduction in the number of tax agents undertaking less than 10 funds. Expect this shift to continue with these regulatory and technology advancements.

A gender shift is occurring
An interesting aspect of the SMSF landscape is looking at membership by gender. Whilst males have long been represented more within the SMSF sector, there has been a ‘shift’ in the proportion of female members, which now account for 47 per cent of all members. What we are seeing amongst the new fund establishments is strong female population growth, with the quarterly statistics showing more women becoming members in most of the age ranges, with the exclusion of members over 64 years of age.

It will be interesting to follow this statistic within the SMSF sector, in particular the older member demographic. With female life expectancies naturally longer than that of males, I suspect within the next decade we will see females as the dominant gender amongst SMSF membership.

The SMSF sector is leading the way in retirement incomes
The post-retirement tax concessions continue to swell within the SMSF sector, with 37 per cent of all SMSFs claiming a level of tax exemption within their fund. Whilst only representing a little more than a third of the SMSF population, the representation of total assets in post-retirement is significantly larger. You only need to compare the average member balance of $523,814 against the average pension member balance of $922,554 to gain some perspective of the tax revenue forgone by government as a result of a fund’s tax exemption.

The SMSF sector is leading the way in post-retirement, with more than 93 per cent of fund members taking benefits payments as an income stream. This is substantially higher than APRA-regulated funds, where some segments continue to face challenges with a lump sum mentality at retirement. For SMSFs, Transition to Retirement (TRIS) has continued to grow (11.4 per cent) as an attractive retirement strategy amongst SMSF members.

On average, SMSF members drawing income streams are taking benefit payments at the rate of 11.7 per cent of the member's account balance ($108,000/$922,000). You would naturally consider this amount relatively high in the context of managing longevity, however I would also suspect a proportion of these benefit payments would be contributed back into the SMSF each year through recontribution – my guess is that this will include genuine recontribution strategy amounts and surplus pension amounts (where eligible to recontribute).

How benefit payments have surpassed contributions for the first time

Whilst on the topic of post retirement, the 2013 statistical overview demonstrated for the first time that benefit payments exceeded contributions. The tightening of concessional contribution caps have certainly had a significant impact on the inflows within the SMSF sector. However, as more members move into post-retirement, I suspect we will continue to see benefit payments outstrip inflows for some time.

Why do we continue to see individual trustees growing so fast?

It's staggering to see individual trustees representing 92 per cent of all newly registered funds in 2014.

Over the three years to 2014, there has been a two per cent decline in the number of corporate trustees, even throughout a time where acknowledgement of this type of trustee structure is far superior (through government review). When surveying professionals through our *Future of SMSF Survey*, around 90 per cent of respondents suggested that they recommend a corporate trustee over individual trustees, yet the evidence is fundamentally the opposite? Why? that's a very good question. Is it generated from ill-informed professionals and trustees? Is it generated from the 'free setup' activities occurring within the SMSF industry? Whatever the case, I would suspect that this approach to trustee structure may present some interesting challenges in the future, including issues arising under the trustee penalty regime.

Have the real costs of SMSFs been revealed?

Following changes to the SMSF Annual Return (SAR), we have arguably seen for the first time a true reflection of the costs of operating an SMSF. The update within the 2013 SAR and subsequent years means that the ATO are capturing not only deductible expenses, but non-deductible costs (previously excluded from reporting).

It has been abundantly clear for some time that this was a 'gap' in the deductions ordinarily excluded through the exempt current pension income (ECPI) deduction. With the average operating expense having increased to 1.03 per cent in 2012/2013, it would probably be a more worthwhile exercise in understanding the median expense of funds, both in accumulation and pension phase, along with a further breakdown in costs between financial advice, administration, compliance and audit. This would clearly provide a better representation of comparison fees to APRA-regulated members who do not have 'advice' costs borne within the fund's operating expenses.

Understanding what's right and wrong with LRBAs

Limited recourse borrowing arrangements (LRBAs) have been a great focus of the regulators, and now having been subject to further government review, the future of borrowing within superannuation remains unclear. Without question, there have been a few key benefactors from this legislation – SMSFs, lending institutions (including brokers) and property-related businesses. Whilst amounts borrowed as a percentage of total SMSF assets are not significant, the FSI panel has recommended to remove this exception from the borrowing rules.

With property acquisition growing through LRBA arrangements (89 per cent), this is seeing a correlation in the number of funds with a higher asset concentration. For example, in 2013, 45 per cent of SMSFs held 80 per cent of their assets in one particular asset class, representing 30 per cent of total SMSF assets. Is this lack of diversification perceived as an issue? What the statistics don't show is the correlation of new entrants by age demographic and an analysis of the way they are investing. This would be interesting to better understand the time horizons being placed by trustees on particular investments and the asset concentration within fund. The statistics show that 89 per cent of LRBA arrangements were in accumulation phase, with 11 per cent paying pensions and therefore deriving little or no benefit from any interest deductions and capital works (potential capital growth only).

The big SMSFs keep getting bigger

The 2012/2013 financial year saw positive investment returns for the SMSF sector (10.5 per cent), providing comparative performance returns to that of APRA-regulated funds. Being the fourth year of positive returns since the days of the GFC, it is interesting to note that the larger the SMSF, the better the return on assets. This is not a reflection of 2012/2013, but is consistent in the five years of performance shown within the statistical summary.

The statistics show that 26.9 per cent of larger funds (>$2 million) have asset concentration of greater than 80 per cent (one asset class), compared to more than 50 per cent of funds with balances of under $500,000. This demonstrates an inability for smaller funds with high-levels of asset concentration to adapt to changing market conditions. In contrast, the larger SMSFs appear able to adapt better and would be more likely to seek advice – a combination that would provide for these higher net worth SMSFs to grow even further.

Drivers for SMSF members maintaining APRA-regulated accounts

As the SMSF sector passed one million members within 2014, it is interesting to see the growth in the number of members who have retirement savings in both an SMSF and within an APRA-regulated fund. For 2013, this statistic increased to 38 per cent, up 16 per cent from 2012. Why is this the case? There are several possibilities as to why, including the introduced legislative requirement for an SMSF to consider contracts of insurance for its members within the investment strategy. With insurance premiums at a 'group level' significant lower in APRA-regulated funds than SMSFs (typically offered only at a 'retail' level), you would suspect that members are retaining balances to continue to meet these ongoing cheaper premiums