

SMSE



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THE NEXT WAVE

So far SMSFs have been the domain of individuals either in or approaching retirement. Charity Bru has a look at where the next phase of SMSF growth could be coming from and what their advice needs might be.

Which group of people will provide the next growth phase in SMSFs? To provide you with a clue, it is the group of people born between 1965 and 1980; the sons and daughters of the baby boomers. They are the group of people ranging from their early thirties to their mid-forties, who wish their parents would stop spending their inheritance, once owned a hypercolour t-shirt and love '80s music. They are, of course, generation X.

Australia, like most other western countries, is experiencing a massive demographic shift as the baby boomer generation moves into retirement. Combined with the substantial taxation and other benefits of self-managed superannuation, we have witnessed tremendous growth in both the number of funds and total assets, 234 per cent in assets over six years to March 2011 according to Australian Taxation Office (ATO) figures.

We believe the number of funds and assets managed through SMSFs will continue to grow. However, it is vital to carefully consider where that growth will come from, who these individuals are, what drives them to start and run their own funds, and what we can do to make it as simple as possible for them to maintain them.

According to the 2011 "Intimate with Self Managed Superannuation" report recently published by the Self-Managed Super Fund Professionals' Association of Australia (SPAA), one in 10 respondents in their trustee research indicated those who did not currently have an SMSF were likely to set one up in the next two years. Of those likely to set up a fund, the generation X cohort will lead the charge (15.5 per cent) versus the baby boomers (9.4 per cent).

The trend is already emerging. In the latest ATO quarterly statistical report on

the sector, 35-44 year olds accounted for over 25 per cent of all SMSFs established in the March 2011 quarter, but they only make up about 15 per cent of the total members in SMSFs compared to almost 60 per cent of baby boomers (those aged 46-64) (see table). The potential for growth in generation X SMSF clients/trustees is being realised as we speak.

So what are generation X clients looking for when it comes to SMSFs?

To answer this, we'll refer back to the SPAA report. The research shows there are typically three different types of trustees. Firstly, there are the controllers, who are the traditional members of SMSFs. These trustees are interested in managing their money and like doing it themselves.

At the other end of the spectrum are the outsourcers. This group prefers to delegate all of the work to a third party.

Coach-seekers are the group of people in between controllers and outsourcers. Coach-seekers want to manage their own money, but need some additional information or assistance to support their decisions.

In our view, coach-seekers look for additional information and support relating to both accounting and taxation-based issues, along with guidance as to investment strategy, asset allocation and tactical considerations. Coach-seekers are not information junkies. The coach-seeker looks for succinct, reliable guidance from a reputable accounting and/or investment house. The coach-seeker wishes to remove the white noise, while maintaining a well-balanced, informed opinion.

According to the SPAA report, only one-quarter of coach-seekers are currently members of SMSFs, whereas two in five controllers already have their own fund. If we dig at this a little deeper, we find (as a broad generalisation) coach-seekers are typically not baby boomers (that is the

traditional self-managed superannuant) but their children, generation X.

Additionally, a steady stream of new clients continues to emerge who once were outsourcers to a coach-seeker-orientated service model within our business. Clients love saving money on fees and taking ownership of their retirement future.

In the "Self Managed Super Fund Insights" report published by CPA Australia, the primary reason given for establishing an SMSF was taking control of current or future retirement benefits. On the flip side, the main reason individuals chose not to establish an SMSF was the fact that it was too complicated and confusing.

As an industry, our role will increasingly be to provide the growing band of coach-seekers with the tools to take control of their superannuation, while helping to remove the complexity and perceived confusion surrounding the operation of their SMSF.

Coach-seekers value education. Clear, straightforward and transparent education is beneficial to clients and service providers as clients. Education can be communicated through various media: website, webinars and other electronic means, traditional mail, face-to-face meetings and seminars. Trustees need an extensive education program covering all of these mediums to suit their lifestyle.

As a complement to education, access to portfolio information is also vital.

Over 267,000 funds (out of 424,000 funds as at June 2010, according to ATO statistics) use accountants, but most are still using the traditional methods of dealing with their clients. This involves once-a-year client contact, a lot of paperwork and manual data entry. In the technology age, this is hardly time or cost effective.

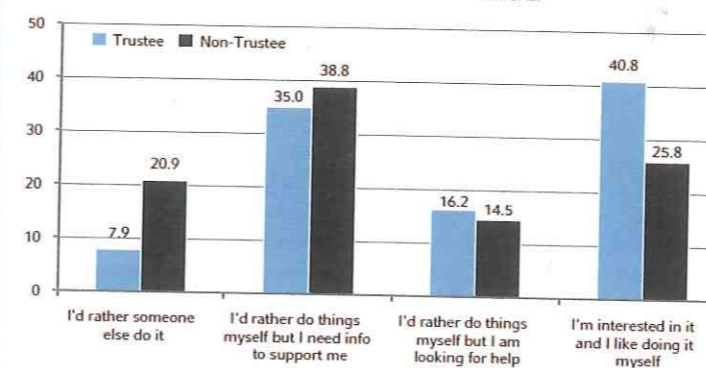
SMSF trustees are increasingly likely to want consistent or up-to-date information that is generally unavailable by these methods.

Case study

To illustrate the growing wave of generation X coach-seekers, we interviewed an individual who recently established his own SMSF.

Jason is 41 and recently decided to establish an SMSF for his family. He is married, with a young family (a boy, eight, and a girl, five). His wife is two years older than him and runs

Preferences for managing money and finances (Trustee vs Non-Trustee)
n = 431, respondents who have an SMSF and 994, respondents who do not have an SMSF



her own photography business that brings in a moderate income. Because she has been primarily self-employed, Jason's wife has a small super nest egg. Jason works as a high-level manager in a large international company.

When looking to start his family SMSF, Jason looked for "an organisation that I felt I could really trust and that had the expertise to advise me on my investments. That advice needed to be independent, not premised on a trailing income. I wanted to be able to talk directly to the people both administering my SMSF and also those recommending assets to purchase. Oh, and I wanted the simplest possible administration of the SMSF, especially at the end of the financial year. Life is complex enough."

Jason decided to look for an SMSF when a work colleague mentioned he was considering starting his own fund. The work colleague showed him the information available on the ATO website. Jason admits that initially, both he and his work colleague were overwhelmed by the administration and auditing side of the process, so they did nothing. A few months afterwards, Jason came across an administration service that incorporated a non-intrusive advice component. After consuming the content of the website, some telephone discussions with staff, and weighing up the costs against what he was paying with his existing fund, "it was a no-brainer for me - for a marginal additional cost I got to take full control of my super investments, get advice from experts who have a vested interest in

my success and all of the administration was done for me. I didn't look anywhere else, I just signed up."

For Jason, the primary factors he considered when starting up a fund were access to expert advice on what to invest in, all administration taken care of and confidence no-one was going to run away with his super savings and have control over his money. Over the past few years, Jason's nest egg dropped by \$80,000 and he no longer felt comfortable being in a company where he was just another client. Jason and his wife want a very comfortable retirement income and to give their kids a good start to life. (In his view, this was ideally a house each). Jason intends to purchase shares using guidance from the service, in particular the model portfolios, and is happy holding a large portion in cash for the time being. Outside of super, he is building a property portfolio.

"At the moment I feel really comfortable that I can use my super to invest in the shares I choose and separate to super, we can diversify with property investment."

How do we meet the needs of these upcoming trustees?

Part of being able to meet the generation X needs is being able to streamline the administration of their funds. As Jason says in our case study: "Life is complex enough."

There are several providers in the market providing electronic data feeds in relation to client bank transactions and share transactions, which can greatly assist in helping both the trustee and their accountant minimise the paperwork that is dealt with at the end of each year. Efficiency can be increased, as many queries can be resolved

prior to the trustee providing paperwork. Even with meeting audit requirements, the level of data entry is largely automated, which leads to a reduction in cost. Trustees could not possibly contest a reduction in their paperwork, ongoing queries and possibly costs.

With particular regard to the coach-seeker demographic of generation X, they are looking for assistance with their SMSF and its investments, however, they aren't necessarily looking for (or want to pay for) a full financial plan. They still want to retain that element of control, and with the ban on commissions from the upcoming Future of Financial Advice reforms, a full financial plan may become unaffordable to some trustees.

Specialist SMSF administrators have begun to recognise and capitalise on this trend by offering financial services tailored to a particular level for the client bundled together with their service. In a similar way, we have found that providing an administration and compliance service, as well as a weekly investor newsletter subscription that recommends stock trades, has been appealing to this market. Furthermore, arranging to receive automated information electronically for clients has been economical and helped to keep trustees organised and focused on their investments, not just their compliance.

The use of specialist SMSF administrators has become increasingly popular because of these streamlined all-in-one-style services and those using traditional methods and manual data entry have yet to catch up. Embracing technology, together with maintaining client relationships, is the key to being able to provide these services to current and future clients. ●

Charity Bru is superannuation manager with Rivkin Super.

| AGE RANGES | TOTAL (%) |
|--------------|-------------------|
| < 25 | 1.1 |
| 25 - 34 | 4.4 |
| 35 - 44 | 14.3 |
| 45 - 54 | 26.0 |
| 55 - 64 | 33.7 |
| > 64 | 20.6 |
| Unknown | (rounded to zero) |
| TOTAL | 100 |

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