DIY super looks past Telstra, Big Four

Spread coming though funds, roundtable told

Neale Prior

Exchange-traded funds and managed funds are emerging as the fix for DIY superannuation accounts being overly concentrated in Australian shares.

A study released at the SMSF Association conference in Melbourne by accounts management system provider Class has shown how self-managed superannuation funds are getting increasing international exposure through ETFs and managed funds.

Almost 56 per cent of investments held by SMSFs through managed funds are focused on international equities, while almost 60 per cent of ETF investments by DIY super funds had underlying securities overseas.

Class chief executive Kevin Bungard told an SMSF roundtable hosted by Your Money the diversification push was a good trend.

"SMSFs are often criticised for not getting exposure to international equities and fixed interest," he said.

The investments, however, are coming off a low base with only about 16 per cent of SMSFs last year having ETFs. The SMSF asset allocation remains heavily dominated by listed Australian shares, led by the Big Four banks and Telstra, and by cash.

SMSF Association technical chief Peter Hogan said research currently being carried out with Commonwealth Bank indicated funds that used advisers had better investment diversification.

Association chief executive Andrea Slattery said about 20 per cent of the broader investor public received advice whereas about 40 per cent of SMSFs were advised, up from less than 20 per cent a decade ago.

A lack of investment diversification is seen by specialists as the weakness of many DIY super funds because they can leave retirement savings plans and retirement incomes excessively vulnerable to a downturn in an asset class or individual investments.

Accountant Brett Kenny said about 50 per cent of his clients did not have a financial adviser and "self-medicated" when it came to investment decisions.

"To even get them to look holistically is a challenge," he said.

"Financial planning is a subset of life planning. They should also have succession planning and crisis planning. It should all be done.

"From a financial planning perspective, it is having the knowledge of the industry and of the client. Once they trust the adviser, I think they are more amenable to trying things they are unfamiliar with or initially can't deal with."

Actuary and adviser with national group iPac, Peter Crump, said most SMSF trustees preferred direct share investments and ETFs.

"We see that if clients want international exposure, the first thing they will do is get an ETF because it is easy to do," Mr Crump said.

"They don't quite understand but at least they feel like they have got some international exposure."

Many SMSF trustees are highly sceptical about the mainstream managed funds industry, which plays a more active role in deciding the make-up of a fund's investments.

ETFs are sold as being lower cost, with their asset mix usually determined by reference to a benchmark or index.

In the face of this, fund managers are trying to increase their appeal to the DIY super operators through their involvement in the mFunds platform being offered by the Australian Securities Exchange.

The platform is design to make the purchase and sale of interests in managed funds quicker and more transparent.

Industry players are reporting some financial planning groups and trustees are slow to use the service because only a limited number of brokers are participating. Also an adviser or client needs to set up a new relationship with a participating broker to get access to the mFunds system.

Mr Hogan said financial planners were making some headway with the diversification argument but many DIY super trustees were suspicious of managed funds unless they had enjoyed a good experience with them.

"I've had trustee clients who've had arguments with fund managers about why they're buying a stock when they don't think that stock is very good," he said.

Ms Slattery said knowledge among investors built confidence to seek advice and to discern when advice was competent.

GROWING FOR THE FUTURE

TOP INVESTMENT HOLDINGS

ETFs
31 December 2016

		% of total SMSF ETF investments
1	Ishares S&P 500 ETF	11.0%
2	Ishares Global 100 ETF	5.7%
3	SPDR S&P/ASX 200 Fund	8.2%
4	Vanguard All-World Ex-US Shares Index ETF	3.9%
5	Vanguard US Total Market Shares Index ETF	5.6%
6	Vanguard Australian Property Securities Index ETF	3.5%
7	SPDR S&P/ASX 200 Listed Property Fund	3.4%
8	Magellan Global Equities Fund (Managed Fund)	3.9%
9	Ishares Europe ETF	2.2%
10	Vanguard Australian Shares Index ETF	6.4%

DOMESTIC SHARES
31 December 2016

		% of total SMSF ETF investments
1	Telstra Corporation Limited	5.0%
2	BHP Billiton Limited	4.1%
3	Westpac Banking Corporation	6.7%
4	Australia And New Zealand Banking Group Limited	5.5%
5	National Australia Bank Limited	5.4%
6	Commonwealth Bank Of Australia	8.0%
7	Wesfarmers Limited	3.1%
8	Woolworths Limited	1.9%
9	South32 Limited	0.4%
10	Woodside Petroleum Limited	1.7%

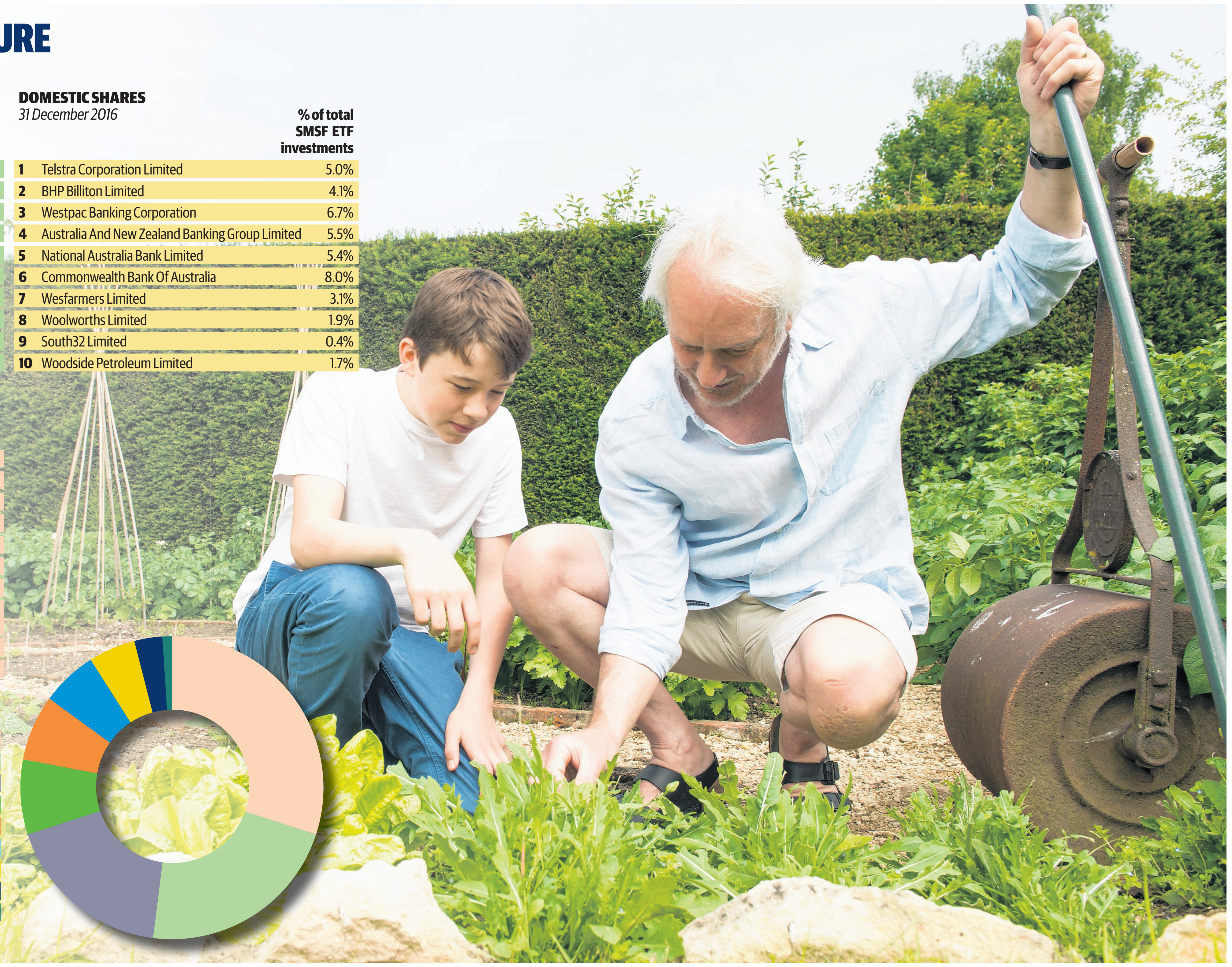
MANAGED FUNDS
31 December 2016

		% of total SMSF ETF investments
1	Platinum International Fund	4.3%
2	Magellan Global Fund	4.5%
3	Platinum Asia Fund	1.7%
4	Winton Global Alpha Fund	1.0%
5	Fidelity Australian Equities Fund	1.5%
6	Aberdeen Emerging Opportunities Fund	0.6%
7	MFS Global Equity Trust	1.1%
8	Grant Samuel Epoch Global Equity Shareholder Yield (unhedged) Fund	0.9%
9	Macquarie Income Opportunities Fund	1.0%
10	Schroder Fixed Income Fund – Wholesale Class	1.0%

SMSF Asset Allocation

Listed shares	30.0%
Cash and term deposits	22.2%
Unlisted trusts	17.4%
Non-residential real property	8.3%
All other assets	7.1%
Residential real property	6.4%
Listed trusts	4.6%
Limited recourse borrowing arrangements	2.6%
Other managed investments	1.4%

Source: Class



SMSF players need to grasp one-off CGT break

Funds hit by super, tax rule changes told to get advice on asset price reset

Neale Prior

Operators of self-managed superannuation funds have been warned to check whether they are going to be affected by Budget concession and tax changes.

It is not only the potential negative effects of a $1.6 million limit on pension account balances and the 15 per cent earnings tax being imposed on transition to retirement (TTR) accounts. And lest we forget the tough new contribution caps.

It is also the potential positive of the Federal Government giving DIY super operators affected by the changes a one-off chance to set a new cost base of their fund assets for capital gains tax purposes. "Be alert, not alarmed," accountant and SMSF Association board member Brett Kenny said.

As DIY super consultant and *Your Money* columnist Monica Rule points out, many fund operators and even their advisers are only starting to realise they may have a fair bit of work to do before the new rules take effect on July 1. Those affected could include someone with a TTR or an account-based pension.

They are likely to need advice. "Even though the law does not take effect until July 1, they need to make decisions now," Ms Rule said.

The tax rule changes unveiled in the Federal Budget might have seemed relatively simple but they could have big consequences.

Someone with a pension account with a balance of $1.6 million does not have to sell assets, but can effectively make an accounting entry moving parts of their nest egg back to the super accumulation phase.

Fund earnings in accumulation phases are taxed at 15 per cent, as opposed to being tax free in pension phase.

The Federal Government is also slashing the maximum amount we can put into superannuation from pre-tax income and from cash on which we have already paid tax.

Clockwise from front: Joseph Hoe, Andrea Slattery, Brett Kenny, Peter Crump, Monica Rule, Kevin Bungard and Peter Hogan head to Your Money SMSF Roundtable.

Actuary and adviser Peter Crump said it was difficult for most people to understand the Budget changes and the tax regime generally because it did not make sense.

"Each person is affected in a different way," he said. "Each person has a subtle variation that is unique to their particular circumstances, which means their diagnosis can't be the same as everyone else."

SMSF Association technical chief Peter Hogan said a key issue to emerge at last week's association national conference was that advisers had to understand the CGT concession for funds affected by various rule changes. "We'll be encouraging people to stop whingeing about it and get on and understand it," he said.

"If they don't put their clients into a position to get access to their concessions, then the clients won't get in and they'll be in trouble."

Wealthwise adviser Joseph Hoe said DIY super trustees should at least check with a professional who properly understood the changes about whether they would be affected by the changes. Mr Hoe said the adviser could then work out what needed to be done and what extra help, if any, might be needed.

"It is a triage process," he said. "You need a diagnosis."

Mr Crump said the tax changes were so complex that people should not engage in self-diagnosis. "Self-diagnosis that is not complete can cause irreversible consequences," he said. "And lost opportunities."

The big opportunity for super funds is to reset the capital gains tax cost base to the current price for assets that have to be moved from tax-free pension phase or for assets supporting a TTR pension. It is the trustee's choice to reset the CGT cost base to a current market-based price in recognition of the assets having gone from a tax-free environment to facing a 15 per cent tax on earnings and realised capital gains.

Class chief executive Kevin Bungard said a person would not reset the cost base if it were an asset that was not worth less than when it was purchased. But a significant advantage could be provided by setting a new asset cost price for assets on which there had been a big capital gain and which could otherwise be subject to a big tax bill if sold.

Mr Kenny said people had to be aware of the changes to make an informed decision.

Straight talk from one of the nation's top financial analysts and humbug detectors

DEBTMAN

*with **Bruce Brammall***

DIY can be a pain in the proverbial

So many people, so little interest. When it comes to superannuation in Australia, compulsory for most, this is the depressing situation.

As a financial adviser, this absolutely does my head in. I can't get my noggin around the lack of interest. Because I love super. It gets me all tingly.

But like Newton's third law, I have an equal but opposite reaction to people who decide to take a wee interest in their superannuation … just enough to open a self-managed superannuation fund … when they shouldn't.

Don't get me wrong. Love SMSFs. They are an awesome and awesomely powerful vehicle for some. My problem comes with why people set them up. Some set them up for the right reasons. Some for really, really, cruddy reasons.

Let's start positive. The good reasons to go SMSF are because you want to exert control over your retirement savings and you're prepared to take an active role.

You can still outsource parts of that interest, such as investment or tax advice, to financial advisers and accountants. Taking control via an SMSF allows you to take your superannuation down paths that other funds (other funds are regulated by the Australian Prudential Regulation Authority, aka "APRA funds") simply won't allow you to. More on this shortly.

But, similarly, taking control of your super doesn't require the setting up of an SMSF. If you're interested in picking your own stocks, there are plenty of APRA-regulated platforms that will allow you to, while the platform still looks after the accounting.

A good reason for starting an SMSF might be that want to invest in property directly. You cannot do direct property via an APRA fund.

Another good reason could be cost. For those with big super balances, or a combined large super balance with your partner, it can literally be cheaper, even with paying quality professionals for their advice, to open up an SMSF.

For example, if have a combined balance of $2 million, you could potentially halve your costs via an SMSF.

Tax can be another good reason. Most APRA funds pool the tax implications of investment and insurance across all members. This means some members subsidise others. However, with an SMSF, you control your own super tax destiny, by deciding when to buy, or sell, or even contribute.

SMSFs also offer more complex estate planning options, economies of scale and better insurance options.

Now, bad reasons to open an SMSF.

Because your accountant told you you should. The "accountant's exemption", which allowed accountants to recommend setting up an SMSF, has been, thankfully, removed (unless they are also qualified to give financial advice also), so this should be less of a problem in future.

You went to a property seminar and they told you that they could set one up for you so that you and your partner could buy a property (geared or not). I can almost guarantee that you will do your dough here.

Avoid. Avoid. Avoid.

As mentioned above . . . to choose your own stocks. Stick with an APRA-regulated fund. If you've got a couple of hundred thousand dollars in super, find a fund that will allow you to trade shares. Until such time as you've got enough money in super for it to make sense from a costs perspective. See above.

If your predominant feeling is "how hard can it be to run a SMSF", understand this: An SMSF is like running a mini business. You have to be in control, take an interest, be ready to hire and fire professionals. Seriously, jail is a potential consequence of getting it wrong.

SMSFs can be fantabulous. But if it's kicking around in the back of your head, leave it fumbling around there. Don't do it until you're sure. Because I can tell you, they're a pain in the rear, and expensive, to unwind, if you decide you've made the wrong decision.

Bruce Brammall is the author of Mortgages Made Easy *and managing director of Bruce Brammall Financial*
bruce@brucebrammallfinancial.com.au