Politicians need better grip on SMSFs

DIY super

Tim Mackay

As we rake through the embers of the federal election, there is a strong chance that Labor fundamentally misunderstood the nature of a typical self-managed superannuation fund (SMSF) member.

If you look at the headline numbers, there are 1.1 million Australians in just under 600,000 SMSFs who have an average fund balance of $1.2 million. They are typically a couple (1.9 people in an SMSF on average).

But this doesn't give us a true picture of a typical SMSF investor. To understand a significant problem, go back to year 9 maths when we were taught the difference between average and median.

For instance, if you take a billionaire and a homeless person, their average wealth is $500 million. While mathematically correct, this average is clearly a meaningless statistic.

If you line up 100 people from smallest to tallest and take the height of the 50th person, that's the median. The benefit in taking the middle value in a big group (median) is that it doesn't get skewed by extremely large (or small) values at either end.

That is exactly the problem with some SMSF statistics – extremely large values skewing the averages.

To put this in perspective, in June last year, Australia's biggest industry super fund, AustralianSuper, had 2.2 million members (1 in 11 Australians) who, combined, owned $140 billion in super assets. By Australian standards, a behemoth.

By comparison, there is a fat tail of a small number of SMSFs with fund balances of more than $5 million. There are 20,000 funds (or 3.3 per cent of all SMSFs) that control $167 billion in super assets. They control 25 per cent of all SMSF assets and 6 per cent of all super assets in Australia.

This is not poor by any means, but the typical SMSF member is also not living on easy street.

So 3.3 per cent of all SMSFs control 20 per cent more assets than AustralianSuper. Behemoth indeed.

And this is what skews the SMSF statistics and has an impact on policy making. Once you remove this small percentage of high-end funds, you are left with 580,000 smaller funds and a far more accurate picture of a typical SMSF member.

Digging behind ATO statistics shows mum and dad trustees are more likely to have less than $350,000 each in super, rather than boasting harbourside mansions.

So harking back to average versus median; whereas the average SMSF holds $1.2 million, if we line all 600,000 SMSFs in a row, the median SMSF asset value plummets to $693,000. For a couple in an SMSF, that represents less than $350,000 each to support their 20-year-plus retirement. This is not poor by any means, but the typical SMSF member is also not living on easy street. They're not all yacht owners with ocean-view homes.

From the ATO statistics, a typical SMSF holds $300,000 in trusts (managed funds, REITs, ETFs, etc); $110,000 in cash and term deposits; $270,000 in listed shares; and $13,000 in other assets. That should give you a good rule of thumb to compare with your own SMSF.

With these statistics in mind, there are important issues that arise from both the 2019 election result and the 2017 big super changes.

First, it's incredibly important that all political parties better understand the true nature of SMSF investors before they commit to policies affecting the entire sector. The ATO has a wealth of information that gives a far more accurate picture of the nature of SMSF investors. Political parties should use it.

Second, with the $1.6 million transfer balance cap, high-balance SMSFs will grow faster than they would have. That's because although they will now pay tax at concessional rates, they won't need to meet higher minimum pension payments as a larger proportion will be in accumulation mode, not pension mode.

Last, there is no longer any material benefit in rolling your SMSF to an industry fund to avoid losing franking credit refunds. Perversely, given the election starkly highlighted the benefit of franking credit refunds, a strong incentive now exists for those with large balances in the pre-mixed options of industry funds to roll instead into an SMSF. Then they can enjoy the entire refund benefit instead of diluting it with other members. It's funny how elections can skew our economic behaviour.

Now that the election is over, we can make important long-term decisions in super with far more certainty. Well, at least until the government starts its retirement income system review. The more things change, the more they stay the same. SI

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