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WHY SELF-MANAGED SUPERANNUATION FUNDS ARE SO POPULAR



In September 2008 the ATO released its long awaited SMSF statistics for the June 2008 income year. These statistics indicated that SMSFs had become the largest group of superannuation in Australia, based on the level of assets invested.

As at 30 June 2008 the assets residing in SMSFs were \$358.2 billion. This represented 30.6% of the superannuation industry, followed closely by retail superannuation funds at 29.1%. Assets in SMSFs have been growing at an immense pace, with Australians adding \$8 million per hour to their SMSF benefits over the two year period between 1 July 2006 and 30 June 2008.

The popularity of SMSFs has been growing substantially over the past few years particularly since the inception of the Simpler Superannuation Regime. The number of funds has increased by close to 31,000 between June 2007 and June 2008. Australians want to take control of their retirement and ensure they are self-sufficient, with the use of an SMSF providing them with that empowerment. SMSFs have also emerged as the preferred investment vehicle not only for the retirement wealth of Australians, but also as a family wealth accumulation vehicle.

The main reasons for the emergence of SMSFs in Australia are:

1. Investment control: trustees of SMSFs (the members), can choose their own fund investments, including shares, residential and commercial property, farms, artwork etc. There are limitations under the superannuation laws as to how these assets can be acquired and their use, however provided they meet the requirements, such investments can fit within a well diversified investment strategy within a SMSF.
2. Family Super Funds: A SMSF is a true intergenerational wealth accumulation and wealth transfer vehicle. There is no legal time limit on how long a SMSF can last, with many clients building them for the benefit of generations to come.
3. Preferred Investment Vehicle: The Simpler Super Regime introduced in July 2007 provides tax free status for lump sums and pensions payable from a SMSF to a member over age 60. This is a huge benefit for members during their retirement compared with all other forms of investment structures including the family trust, family company or personal names.
4. SMSF estate planning: A member's superannuation benefits fall outside the scope of their Will, and thus it is the trust deed of the

fund that provides rules as to how a deceased member's benefits are paid out to their dependants or legal estate. The testamentary intentions of members with respect to their superannuation can be catered for completely within a SMSF, ensuring that their benefits are paid in accordance with their wishes and with any relevant restrictions in place to protect assets for future generations.

5. SMSF Borrowing: The new rules allowing superannuation funds to borrow mean it is lot easier to acquire property directly in a SMSF as part of your investment strategy, which has limited application within other superannuation funds.

Where SMSFs invest

The ATO statistical report reveals that the average size SMSF is now more than \$950,000. This is a sizable superannuation fund by any person's standards. But where do SMSF trustees invest?

The following table highlights where SMSFs invest – a significant percentage is in equities (\$100bn) but there is a sizable stake in cash. With the current financial and economic turmoil spreading into the Australian share market, many SMSFs have been hard hit by falling share prices. But on the other hand there are also a large number of trustees sitting on cash waiting for the bottom of the market or turning to the direct property market to make ongoing investment returns.

What SMSFs invest in		
Investment	\$ Million	% of SMSF Investments
Cash	97,214	27%
Loans	1,917	1%
Equities	115,200	32%
Property	44,900	12%
Overseas	2,198	1%
Life Policies	269	0.1%
Managed Funds	61,200	17%
Private unit trusts	26,064	7.5%
Other	9,307	2.5%
Total Assets	358,269	100%

cooper
partners
financial services

Level 6, London House, 216 St Georges Terrace
Perth WA 6000
PO Box 7027 Cloisters Square Perth WA 6850
t 08 6311 6900 f 08 6311 6999
enquiries@cooperpartners.com.au
www.cooperpartners.com.au

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