MEDIA RELEASE: Monday, 19 November 2012

A SMSF time bomb is ticking

A growing number of self-managed super fund (SMSF) trustees are questioning their capacity to run their own fund at an elderly age and actively looking at moving to a managed fund as they approach retirement, according to Andrew Proebstl, legalsuper chief executive.

Mr Proebstl said the trend could be a ticking time bomb for the industry with older SMSF trustees approaching legalsuper worried about their ability to continue to operate their own fund, as well as burdening their spouse or partner with the responsibilities of managing a SMSF.

“Australia’s baby boomers are moving through retirement and many are weighing up whether they will have the capacity at an elderly age to manage their own fund,” he said.

“It is often the case that one spouse or partner takes a lead role in managing the household finances and increasingly we are seeing that these individuals don’t want to leave a spouse or partner who is less involved with the burden of running a super fund when they pass away.

“The other advantage of a managed super fund is that individuals have staff available to answer questions and help manage their super – in most cases funds do not charge for an initial consultation or short conversation.

“Ongoing and efficient administration is critical to the success of any super fund and just as much so with a SMSF. Extensive compliance requirements prevail and change over time. As people age, how many will want to spend their time keeping up with these requirements?”

“During the retirement phase, people have different investment risk and return profiles and refinements in investment strategy will need to be formulated and implemented. In the latter years of life, individuals may be less equipped to make these decisions,” Mr Proebstl said.

legalsuper has direct experience of senior SMSF trustees closing their fund and moving their retirement savings to legalsuper. Mr Proebstl suspects other managed funds have noticed similar occurrences, and expects this to increase as ‘baby boomers’ move through retirement.

“Given the growing number of do-it-yourself options within managed super funds, it’s not that unexpected to see a growing number of self-managed fund trustees closing their own fund and transfer their savings into a managed super fund to avoid the increasing administrative burden and responsibility,” he said.

“Managed super funds now offer do-it-yourself options that give people the control they want and the ability to invest in shares, term deposit or ETF’s of their choosing via direct investment platforms.

A record 913,550 Australians are now running SMSFs - controlling almost $440 billion of assets from their homes - with an assertion that members are seeking to avoid the asset allocation of industry and retail funds.

“Some commentators have attributed the move to SMSFs to individuals wanting to avoid the volatility of equity markets,” Mr Proebstl said.

“In reality most super funds have a range of investment options including options that are less allocated to equity markets. For example, if members want to fully avoid equity risk they can readily do so by switching their super into a 100 per cent cash investment option.”

Brisbane’s Frank Demartini, 76, has been an active and successful SMSF trustee for over 16 years and has established a comfortable nest egg for retirement.

With his focus shifting from building wealth to enjoying his retirement, he is now contemplating moving to a managed super fund. He is still interested in participating in managing his portfolio, but acknowledges, should he pass away, that his wife does not have the same interest, knowledge or skills to run the fund adequately and is reluctant to leave her with the burden.

“I’m not going to live forever and I don’t want my wife to have to worry,” he said.
“I want to prepare and implement an easy succession plan for when I’m not here.”

Frank believes his situation is far from unique and knows “at least half a dozen friends and colleagues in the same situation, all with significant portfolios”.

“I think we’ll see a trend of people transitioning to managed super funds, not just in instances where a partner is less involved in the personal finances, but with the changes some managed super funds are making. I think you’ll see a lot of people heading back over the next couple of years,” he said.

Another reason for shifting to a managed super fund is the changing investment priorities with ageing.

Frank no longer has the desire to build wealth and is enjoying spending while still active and in good health.

“I’m not interested in making another $50,000 anymore. We want, and should be, spending some of our savings,” he said.

“An SMSF gave me the freedom to invest my own money, but a managed fund continues to offer high returns without the day-to-day responsibility.”

ENDS