SMSF Owners' Alliance

Limited ABN 96 161 052 464

Not-for-profit public company

SUBMISSION TO THE FINANCIAL SYSTEM INQUIRY

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Prepared by:
Duncan Fairweather, Executive Director and
Malcolm Clyde, Research Director

Role and Background of SMSF Owners' Alliance

The SMSF Owners' Alliance Limited (SMSFOA) is a not-for-profit public company established to represent the interests of trustees and owners of Self-Managed Superannuation Funds (SMSFs). Whilst there are other organisations with similar interests and objectives, SMSFOA's distinction is that membership is strictly limited to the trustees and owners of SMSFs and is not aligned with any commercial interests.

Before we were established in late 2012, there was very little representation of the interests of trustees of SMSFs in Australia and, even now, SMSFs are under-represented given the significance of the sector. Other segments of the superannuation industry and financial system are strongly represented by well-funded advocates with powerful commercial interests in protecting their profitable positions.

In contrast, we are a not-for-profit organisation with research and advocacy services substantially provided on a pro-bono basis by its directors. In this context, we would urge the Financial System Inquiry to measure the importance of our submission, not based on the forces behind it but more on the importance of the sector we represent and the strength of our ideas.

There are almost one million beneficiaries of SMSFs whose interests we support through our advocacy, research and media liaison. According to the ATO statistics (December 2013), these beneficiaries held $532 billion in investments, very largely invested in the Australian economy. Notwithstanding the considerable uncertainty that has surrounded this sector over the last few years it is still growing at a faster rate than the balance of the superannuation sector and the Australian economy.

We believe this is illustrative of a strong underlying desire by Australians to become self-sufficient in retirement and to take the responsibility for and the cost of retirement management away from Government.

We are happy to meet with members of the Financial System Inquiry to discuss this submission, its implications and any areas of which you would be interested in further elaboration. Furthermore, we would be willing to share the detailed results of our modelling used to develop some of the views in this submission.

Overview of submission

We welcome this inquiry and commend the Government in taking the initiative to review Australia's financial system. A thorough, objective and successful Financial System Inquiry and implementation of sensible recommendations over time will lead to a stronger and more dynamic Australian economy which is in our members' best interests.

We agree with the philosophy implicit in the Terms of Reference that competition, innovation, efficiency and flexibility are desirable objectives for a well-functioning and sustainable financial system, whilst recognising that there are inevitably some trade-offs in addressing them.

Whilst the impact of compulsory superannuation was considered in the Wallis Inquiry, the SMSF sector has arguably grown stronger in significance than anticipated in 1997 and its importance as an efficient and flexible engine for funding further growth in the Australian economy should not be underestimated.

We note that the Terms of Reference make specific reference to the consequences of developments in the Australian financial system since the global financial crisis. Whilst this was a significant event in our economic history and lessons from it should be considered, it would not be in the best long-term interests of the Australian financial system and its robustness going forward for there to be an over-reaction. The Australian financial system coped with the shock and subsequent strains of the GFC better than most and our financial markets continued to operate efficiently. To a significant degree, this resilience in the face of global turbulence can be attributed to the effective regulatory structure built as an outcome of the Wallis Inquiry. We continue to maintain that Government's role in the operation of the financial system should be to set clear regulatory lines, encourage competition and innovation with transparency and disclosure but otherwise minimise unnecessary regulation.

The Terms of Reference are understandably broad and it is not clear at this stage where more detail may be required to support elements of this submission.

We have therefore attempted to provide relatively broad-brush opinions addressing the fundamental issues of competition, innovation, technology impact, efficiency, regulation and flexibility in the financial system since we understand that there may be an opportunity to discuss and elaborate on our submission with members of the Inquiry and to then make more focussed and detailed submission as appropriate.

Naturally, our submission has a focus on the role and performance of the superannuation sector and in particular of self-managed superannuation funds.

Through this submission we have made some specific recommendations. These, and a summary of our comments, have been numbered and a separate listing of them is provided in the Appendix.

The main thrusts of this submission are that:

1. The transfer of the cost and responsibility for retirement from Government to individuals, fully privately-funded, is in the best interests of the Government budget and the Australian financial system and improvements in the efficiency and effectiveness of this process should be encouraged;
2. SMSFs are a large and growing part of this private, fully-funded pension system and the Australian economy;
3. They provide strong and necessary competition for APRA-regulated funds;

4. They have proven to be successful, flexible and efficient in terms of net financial returns and risk management and have also been a strong supporter of and investor in the Australian economy;
5. Any recommendations of the Inquiry that improve the choice, competitiveness, transparency and efficiency of product and service providers to this sector would be strongly supported by us;
6. More clarity is needed to differentiate between product sales to SMSFs and the provision of general or personal financial advice.
7. We believe that there are changes in the taxation rules and structure of superannuation which would improve the efficiency and effectiveness of this sector in funding the growth of the Australian economy and should be objectively studied as part of a long-term review of superannuation;
8. In the meantime we propose some immediate changes to the superannuation system to improve its effectiveness and role in the Australian financial system;
9. The Age Pension is the default underpinning of the retirement system and therefore no further 'guarantee' support is needed from government for either the APRA-regulated funds or the SMSF sector. Such support only adds to cost and raises moral hazard issues; and
10. There should be no bias nor forcing of investment decisions as this will lead to a deterioration in the effectiveness and efficiency of the financial system.

1 Significance of Superannuation in Australia's Financial System

1.1 Growth in super is an opportunity not a challenge!

One of the principal developments since the Wallis Inquiry is the significant growth of the superannuation sector (as anticipated by Wallis). The total level of superannuation funds in 1997 of about $260bn has risen at a compound rate of over 12%p.a. to today's level of $1,800bn. This compares with average growth in GDP of 3.2%p.a. over the same period. To put this growth into perspective, in 1997 the total level of superannuation funds was equal to about 66% of the total market capitalisation of the ASX whereas it represents about 86% of today's total ASX market capitalisation.

The purpose of the superannuation system, as endorsed by the World Bank, is to provide mechanisms by which individual Australians can save enough to provide a fully-funded private pension equal to 60-70% of their average real after-tax, pre-retirement earnings. There are three planks to this system; mandatory savings (SG contributions); voluntary savings, encouraged by tax incentives; and the Age Pension. An Age Pension, fully paid for by the Government, was intended to be a safety net but not to be the primary retirement funding for the vast majority of Australians.

This "three-pillar" architecture was reported by the Henry Review as being relatively successful in Australia, being founded on the concept that the responsibility for providing for retirement is shared between government and individuals, with government's role restricted to providing for minimum and essential needs and facilitating self-provision.

Discussion of the economic and social benefits of our superannuation system is sometimes distorted by misleading references to the cost of superannuation tax incentives to the national budget. Media and other commentary continue to incorrectly quote this cost as being $32billion in 2012-13 rising to $45billion in 2015-16. These misleading figures were derived by adding together Treasury figures which should not be added.

Notwithstanding our urging, Treasury has not provided adequate clarity with regard to these figures. Commentary also fails to compare the cost of tax concession with the savings in Age Pension resulting from superannuation. We discuss this issue further in section 3.2

Some commentators have also recently suggested that the strong growth in the superannuation sector – and in particular the SMSF sector – is causing problems in the efficient operation of the financial markets.

We acknowledge that there are bound to be issues arising as a result of the strong relative growth of superannuation. However, we believe that encouraging the efficient continuation of this transfer to a fully privately-funded pension system is in the best long-term interests of the Government, the national budget and the Australian financial system.

The growth in superannuation funding should on balance also be considered a positive feature of the Australian capital markets and an opportunity to establish a long-term domestic funding base to fuel infrastructure development and future growth in the Australian economy.

> Comment #1:
>
> That moving to a fully-funded private superannuation system in Australia offers more benefits to the economy than disadvantages and provides a stable source of long-term capital to fuel growth in the Australian economy.

1.2 Moving to fully-financed retirement system is more equitable

One of the beneficial results of moving to such a superannuation system is that an increasing proportion of pensions are fully-financed. In contrast, the Government's Age Pension payments are not funded from an investment pool but paid out of its current tax revenues. We agree with many analysts that to effectively provide funding of a reasonable pension for the vast majority of Australians, a much greater superannuation savings pool is necessary and further strong growth should be expected. There are however impediments to the efficient and effective growth in superannuation which we cover in sections 5 and 6 of this submission.

A private superannuation system whereby retirees have foregone some discretionary consumption during their working life, assisted by tax incentives during that time, in order to be independent of the Government is more equitable than a system of Government-funded pensions dependent on the taxation revenues exacted from subsequent generations. Unless there are changes to the system, this inequity will become more apparent with increasing life expectancy, resulting in more old people being supported by fewer young people as the Intergeneration Reports prepared by the Government have shown.

> Comment #2:
>
> A superannuation system that is substantially funded from a retiree's savings during his or her working life is more equitable than a government Age Pension system paid for by taxes exacted from subsequent generations.

1.3 Superannuation more efficient use of Government budget

Not only is an Age Pension paid out of tax revenue received from subsequent generations, but 100% of it is provided from such revenue. In contrast, a fully-financed private pension is substantially funded by that individual's savings (superannuation contributions) during his or her working life. Only a small proportion (less than 10% for the cases we've modelled) of such a pension is 'contributed' by the Government in the form of tax concessions – and these are substantially contributed during that individual's working life rather than out of tax revenue exacted by the Government from subsequent generations. In contrast, the Age Pension is a relatively expensive form of Government support and should be limited to providing a genuine safety net as originally intended.

> Comment #3:
>
> That the savings in Age Pension costs as a result of superannuation exceed the cost of tax concessions.

It therefore makes fiscal sense and is more equitable as between generations for the Government to provide adequate incentives for most Australians to save enough during their working life to retire on a fully-funded private pension. For a sustainable retirement system, Australians should be encouraged to constrain expenditure during their working life in order to establish a fully-funded pension scheme.

Encouragement to make such savings should not just be a matter of tax incentives. Providing a more certain and efficient framework for such savings and other steps to encourage a culture of saving would greatly assist the effectiveness of any tax incentives provided.

Recommendation #1:

That the Government endeavours to provide a more certain and efficient superannuation framework and encourage a culture of saving.

1.4 System was developing well but international comparison not all rosy

The architects of the superannuation system should be commended for their foresight. However, subsequent 'fiddling' by Governments have downgraded its effectiveness and credibility as a savings tool.

Up to the mid 1980's the system was a "tax-deferral" mechanism with zero tax on contributions and earnings but taxes on pension distributions. The Hawke Government changed this by introducing the 15% flat tax on contributions and superannuation earnings and the Rudd/Gillard Government introduced severe restrictions on the effectiveness of superannuation by halving the maximum that can be contributed. The uncertainty caused by constant threats of further taxation of superannuation reduces the effectiveness of any tax incentives offered.

In this regard, an international comparison is instructive. A recent OECD report on retirement systems ("Pensions at a Glance 2013") included some disturbing statistics:

- Australia has one of the highest percentages of over 65s receiving a government pension (nearly 80% receive some sort of pension); BUT
- The relative average incomes (public and private) of the over-65s is the lowest (as a percentage of national mean income) of OECD countries; and
- Australia has one of the highest poverty rates amongst over 65s* at 36% vs 12.8% average for OECD.

*defined as % over 65s with incomes below 50% of median national income

Whilst there may be a number of interpretations of these figures, it would appear that the system is failing to reduce the Age Pension demand so that it is just a safety net. Almost all the other countries in OECD pay pensions to a much smaller proportion of their over 65s but their retirees achieve better poverty and income rates than Australia. This suggests a very ineffective and inefficient system is operating in Australia

Comment #4:

That the Australian retirement system does not now rank well within OECD and is failing to meet its objectives.

2 SMSFs performance in Australia's Financial System

The Cooper Report reported the SMSF sectors as being *a "largely successful and well-functioning part of Australia's retirement system"*.

Their strong growth is perhaps an illustration of the growing ability of individuals to access financial markets and investment information directly and to manage their own affairs. This is largely as a result of continued advances in computerisation and communications technology.

As a result the SMSF sector has grown into a viable competitor to APRA-regulated funds and should be encouraged as it provides a choice for many an investor with aspirations who wants to, and has the ability to, manage his or her own affairs rather than rely on a third-party manager.

Investors have been moving funds out of the APRA-regulated funds into SMSFs for various reasons including failure to perceive the value in the fees charged by APRA-regulated funds and a desire for greater control of their retirement savings, better returns, transparency and accountability.

However, there continues to be media commentary that suggests that SMSFs have taxation benefits not available to APRA-regulated funds, are primarily tax-planning instruments and distort the efficient operation of capital markets.

These views are incorrect.

2.1 SMSFs have very low level of auditor contravention reports

SMSFs do not benefit from any additional tax concessions above those available to the rest of the superannuation sector.

The Australian Taxation Office's (ATO) annual statistical overview consistently reports that the level of Auditor Contravention Reports remains relatively stable at approximately 2% for all SMSFs each year. This level is substantially lower than for any other category of taxpayers.

> Comment #5:
>
> That SMSFs have lower level of auditor contravention reports that other categories of taxpayer.

In our consultations with the ATO, they have confirmed to us that they have very low concerns regarding tax-compliance by SMSFs. Neither the Cooper Report nor the Henry Review found any evidence of the use of SMSFs for widespread tax-avoidance but rather that the system had been very successful in reducing many people's reliance on the government in their retirement.

2.2 SMSFs support the domestic economy

We also contend that SMSFs have demonstrated a relatively high level of efficiency in allocation of investments.

Whilst tax concessions for the whole superannuation sector is an important plank in the three-pillar architecture, as endorsed by the Henry Review, the SMSF is an investment vehicle that has proven its worth as a well-performing and efficient funding source for the

Australian economy. It is effectively fulfilling its function as an efficient retirement saving mechanism and is playing an increasingly important role in funding Australia's growth.

In this context, it should be pointed out that the ATO Statistical Reviews have reported that SMSFs directly invest over 60% of their assets in Australian shares, cash and term deposits and less than 1% of their savings in overseas investments whereas default APRA Funds held substantially less locally with nearly 30% in overseas investments.

While this may indicate that SMSF investment decisions are conservative and that SMSFs do not have the same capacity to invest offshore as larger funds, nonetheless it remains a fact that SMSFs invest virtually all of their assets in the domestic economy. As at December 2013, this amounted to $526 billion or 99% of total SMSF net assets according the ATO.

The growing funds flow into Australian investments from SMSFs will help hold down the cost of finance for Australian corporations and infrastructure projects.

Comment #6:

That SMSFs are an efficient and well-functioning part of the financial system and invest a higher proportion of their funds within the Australian economy than APRA-regulated funds.

2.3 SMSFs long-term investment view is good for financial system

A recent research report released by Credit Suisse Australia claimed that SMSFs were retarding investment, employment and growth. It claimed SMSFs are only interested in high yielding stocks and this is distorting company decisions on dividends and capital. This is clearly incorrect and misleading.

Seeking high yield investments at a time of historically low interest rates is not confined to SMSFs who make up 16% of the equity market according to the Credit Suisse report – it is a powerful driver for all investors including the major APRA-regulated funds.

The responsibility of SMSF owners is to secure the best possible long-term returns for their fund, not to worry about the capital needs of Australian companies, nor of governments for that matter. Some SMSF trustees may choose to invest in capital raisings by growth stocks but many will prefer to invest in leading companies that deliver a dependable flow of dividends. They, sensibly, do not tend to speculate by investing in stocks on the basis of forecast, but uncertain, growth in share price. Dividend streams have historically been more stable than share prices and many consider this a key criterion for superannuation savings.

The investment horizon of SMSFs is more aligned to the time horizon on many investment decisions made by Australian companies than investors more interested in share-trading. Their growing pool of long-term investment funds are an asset that should be appreciated and encouraged for what it can achieve in support of Australian investment and infrastructure.

It is the responsibility of company directors to decide on dividend payments, taking the interests of shareholders and the company's need for capital into account. The growing size of the superannuation pool of funds, as Australia's retirement system moves towards being fully-funded, would be a factor that company directors would take into account. One would expect company directors to recognise that it is in their interests to consider the investment preferences of a growing and stable pool of funds with a long-term perspective, since companies should also plan for the long-term and not just a short-term trading cycle.

This matching of investment horizons leads to more efficient allocation of investment funds and should be encouraged not disparaged.

SMSFOA strongly holds that SMSF trustees must, in keeping with their legal responsibility, make investment decisions which, in their best judgement and acting on advice as appropriate, are in the best interests of the members of the fund.

Comment #7:

That SMSFs' long term investment horizons and stability should be attractive to infrastructure projects and growing corporations and they should not be directed into investments but be allowed to have flexibility to invest as determined by the market.

2.4 Property gearing in SMSFs should be reviewed

Allowing SMSFs to gear up property has become a controversial issue, in particular the possible impact on the residential property market. In reality a very small percentage (3.5%) of SMSFs assets are invested in property and this figure appears to have remained steady over the past 5 years.

Better structuring and regulation of advisers and product sellers should assist in reducing the number of SMSF for which their trustees have not fully appreciated the risk of high property gearing.

However, Cooper suggested that this issue be reviewed and we would be happy if a formal review of this subject was undertaken.

Recommendation #2:

That the Government follows Cooper's recommendation and undertakes a formal review of the decision to allow SMSFs to gear up property in their fund.

2.5 Tapping the SMSF capital pool

Given Australia's appetite for capital, particularly for infrastructure investment to drive development of a resource-based economy, SMSFs would seem a logical source of capital with some $520 billion in assets.

Yet SMSFs invest a relatively small proportion of their assets in government, semi-government, corporate and infrastructure bonds.

The ATO's SMSF Statistics show that self-managed funds allocate 32.5% of their assets to cash, 28.6% to listed shares and only 0.86% to debt securities. The proportion of SMSFs that hold cash is 97.5%; that own shares is 63.2%; but only 4.6% hold debt securities.

This may reflect the fact that the retail debt markets in Australia are relatively under-developed. Until recently, the bond markets have been wholesale rather than retail, dominated by large institutional investors many of which are based offshore. The readiness of overseas investors to take up highly rated Australian government and corporate debt has left little need for bond-issuers to seek local capital.

We speculate that the relatively low amount of SMSF assets devoted to debt securities may be because SMSF owners, and investors generally, may be more familiar and comfortable with investing in equity rather than debt. The share market is better known to investors than the bond market. This is reflected, for example, in the daily focus of the financial and other media on the share market with little coverage of bond markets.

Another factor may a reluctance to invest in infrastructure projects, like toll roads and tunnels, which have not proved to be commercially viable.

Even where SMSF investors are knowledgeable about the debt markets, the term, yield and security of bonds may not be seen as attractive. SMSF investors tend to be risk averse and may view, for example, corporate bonds as more risky than corporate shares.

Also, there may be a perception that bonds are less easily accessible to investors, unlike shares which can be easily bought and sold online. This is changing with the addition in May 2013 of Australian Government Bonds to the ASX trading platform and the listing of more corporate bond issues.

The most obvious reason, we believe, is simply that SMSF owners are not as familiar and comfortable with investing in debt securities as they are with other investment options, particularly shares. This was not always the case. Prior to the 80’s governments and semi-governments regularly issued in the retail market however for a number of reasons this practise was discontinued. Technology to replace the antiquated registration requirements and trading platforms such as that of the ASX should overcome some of those reasons.

It would be useful to conduct research among SMSFs to gauge their level of understanding and preparedness to invest in debt securities. It would also be worth surveying financial planners/advisers as to the extent to which they advise their clients of the option of investing in debt and the general response of their clients. Such research is currently beyond SMSFOA's capacity, however we would be interested in working with government agencies and industry groups to get a clearer picture of SMSF owners' knowledge of and attitude towards investing in debt securities.

Notwithstanding the comments above, it does appear that SMSF interest in debt market products is growing. The ATO statistics show that the amount invested in debt securities has more than doubled in the three years to December 2013, growing from $1.946 billion to $4.152 billion. However, this growth is off a low base and, as mentioned above, investment in debt is still less than one per cent of total SMSF assets and only a small minority of SMSFs hold debt securities.

The economic advantages of encouraging greater SMSF investment in debt securities include:

(a) Keeping capital in Australia. If more debt capital can be raised in Australia, particularly for infrastructure bonds, then the repayment of bonds is made in Australia, reducing the payment of interest offshore and improving Australia's capital account.

(b) Encouraging Australian investment in Australian assets. Compared to the large retail and industry funds, SMSFs risk relatively little of their assets offshore. The evident preference of SMSF owners to invest locally and avoid exchange rate and other risks, may mean they are better disposed towards investing in Australian assets and perhaps more inclined to invest in local projects. For example, SMSF owners based in a state capital might be more inclined to invest in infrastructure projects that benefit their city, all things being equal.

(c) Broadening and stabilising the base of SMSF investment. A more balanced spread of cash, equities, bonds and property in SMSF portfolios should reduce risk and lead to more reliable investment returns.

2.6 Making investment in debt more attractive

If SMSFs are to be encouraged to allocate more of their capital to debt securities, and in particular, infrastructure funding, then there is no doubt that, until the retail market becomes mature again, governments both State and Federal, will need to provide active and tangible encouragement to redevelop a retail bond market bigger and better than that which existed up until the 80's. A start has been made with the listing in May 2013 of certain Commonwealth Government Securities (CGSs).

Measures like these might need to be considered:

(a) Extend the structural and listing attributes of CGSs to State and semi-government securities and eligible infrastructure and privatisation bonds to give volume, depth and choice to retail investors.

(b) Reintroduce a process of 'underwriting' these retail issues via retail brokers and financial planners. While initially there will be a cost to this nevertheless it will be a major factor in the success of issues particularly in the early stages of establishing the market. Retail investors (and SMSF Trustees in particular) are conservative and may initially need an advisor to point out the benefits.

(c) Consider how the internet can be used to directly access SMSF trustees and establish a book-build process in lieu of underwriting.

(d) Create a class of "eligible" infrastructure and privatisation projects (whether they are public or private or a mixture) which offer a "limited" debt guarantee (from the sponsoring state or federal government) to cover the first say $100,000.00 bond investment by a retail investor in the bonds issued by those 'eligible' projects.

An expensive part of raising retail funds prior to the 80's was the registration administration and particularly when it came to sales and transfers. However, the CGSs have largely overcome this. On the other hand the benefits of such issues were that retail investors:

i. tended to roll over their investments at maturity (they were 'sticky' and a large percentage could be counted on for new issues at maturity);

ii. were not as price sensitive as were the wholesale investors;

iii. were domestic and therefore not currency sensitive; and

iv. tended to prefer slightly longer terms than the 'hot' money of the professional markets.

The better development of a long-term Government bond market should also assist providers of annuities in structuring a competitive product. Better development of an annuity market would be helpful to SMSF trustees but such products must be fundamentally attractive and not forced onto trustees.

2.7 All carrot no stick

While debt securities can be made more attractive to SMSFs we firmly believe investment in them must remain entirely voluntary. Any suggestion that there should be an obligation on SMSF owners to invest a proportion of their fund assets into particular asset classes, for example infrastructure bonds, cannot be acceptable.

SMSF trustees have a duty to take investment decisions that in their judgement are in the best interests of the members of the self-managed fund.

Bonds must compete on their merits alongside shares, cash and property for a greater share of SMSF investment.

Recommendation #3:

That the Government considers better development of long-term bond market and ways to allow and encourage participation by SMSFs in such market.

2.8 SMSFs can be effective choice for many Australians

Within the overall superannuation system, SMSFs are an effective choice for many Australians who want to build sufficient retirement savings to give them an adequate income through their increasingly longer years in retirement and in the final stages of their life when their support and medical costs are likely to be high.

A view that an SMSF is only for a wealthy taxpayer and is not justified for a more modest saver is incorrect and may mislead many Australians to ignore this choice of an efficient and low cost superannuation fund structure.

Given the relatively low cost of running an SMSF, someone with at least $300,000 at retirement could be justified in operating his or her own SMSF, if they so wished.

Our modelling has clearly demonstrated that the sum required in superannuation for most Australians is substantially in excess of the level. The following table calculates the amount of funding necessary for a range of individuals to retire on a reasonable pension, independent of the Age Pension. Three on Average Weekly Earnings aged 25, 40 and 55; three on 1 ½ times Average Weekly Earnings with the same ages and three on twice Average Weekly Earnings.

Table 1. Super savings ($m) required to achieve a private pension at reasonable replacement rates

	Current Ages		
Earnings	25	40	55
AWOTE	$ 2.79	$ 1.55	$ 0.86
1.5 times AWOTE	$ 3.70	$ 2.05	$ 1.14
2 times AWOTE	$ 4.56	$ 2.53	$ 1.40

It is generally accepted, and we agree, that at least $300,000 in savings is necessary for an SMSF to be cost effective. However, it may be reasonable for a taxpayer to start an SMSF with much less than $300,000 provided they have a commitment to save and the time to build up reasonable assets. In this regard it should be noted that the ATO has reported that, as at June 2012, half of SMSF members had a balance of less than $300,000.

Technology improvements are likely to lead to cheaper operating costs for SMSFs. For example, the relatively recent emergence of low cost online SMSF management services should make cost of running an SMSF low enough to justify it for taxpayers with much lower balances.

In any event, given the sums required to be saved to provide an adequate pension, SMSFs should be a choice available to even a modest saver. An SMSF may be a viable choice in a well-structured retirement system for such a person with aspirations who wants to, and has the ability to, manage his or her own affairs rather than rely on a third-party manager. It also facilitates provision to be made for spouses/partners who can thereby attain a level of financial independence.

Nearly one million Australians are members of an SMSF and the number is growing strongly. According to the ATO the continued growth in the SMSF sector *"reflects the improvement in community confidence in the economy and the adaptability of the SMSF sector."*

The test of a superannuation system should be the standard of living that it delivers to people in their retirement and SMSFs are proving as good as or superior to APRA Funds in this regard.

Comment #8:

That SMSFs provide all Australians with an alternative to APRA-regulated funds and are suitable for almost all Australians who want to and have the ability to manage their own affairs.

3 Role of Government and Regulation

3.1 Clear support for superannuation in best long-term interests of nation

For our superannuation system to work effectively requires an individual to recognise the advantages of saving for their retirement during their working life. Tax incentives should be adequate but equally importantly the government should encourage a savings culture and for Australians to "live within their means", such concept including saving adequately for retirement at a reasonable replacement rate.

A system and culture that encourages this attitude to savings and investment will lead to a lower Age Pension cost to the Government's Budget as the population ages.

In this context, the Government should reaffirm its policy of encouraging and providing adequate incentives and tools to allow almost all Australians to save for their retirement at reasonable replacement rates through the superannuation system and reserving a targeted Age Pension as a safety net. After amendments to the superannuation system as suggested in sections 5 and 6 below, the Government should do what it can to limit it – or successive Governments – 'fiddling' with the system and thus undermining Australians' confidence in it. In this way each dollar of tax incentive will be more effective.

Recommendation #4: That the Government reaffirms its policy of encouraging all Australians to retire on a reasonable superannuation pension, and to provide adequate structure and rules to allow this.

3.2 Ensure open and informed debate

Treasury provides an annual Tax Expenditures Statement (TES) reporting on the 'cost' of tax concessions. The tax expenditure in the 2013 TES in relation to employer superannuation contributions was reported as $16bn. This is fine if one accepts an individual's marginal income tax rate as the appropriate benchmark. The tax expenditure in relation to superannuation earnings was reported as $16bn. This was apparently the amount of tax the Government would expect to receive if all such earnings were taxed at an individual's marginal income tax rate less the amount of tax the Government is expecting to receive from superannuation funds taxed at the 15% rate.

Last year Treasury correctly included in the 2012 TES a warning that "tax expenditure estimates are not strictly additive...", but commentators added them together and reported that the total cost of superannuation tax concessions was $32billion. This year Treasury omitted such warning and commentators continue to suggest that the Government would save $32billion in taxes if there were no superannuation tax concessions.

However, it is not correct to aggregate the two figures together. The sum of these numbers is **not** the amount of tax the Government would receive if these tax concessions were not in place, because of a 'double-accounting' issue. The impact of removing the tax concession on contributions would reduce the net contributions available to save and therefore directly impact the level of earnings upon which the second tax expenditure is calculated.

Whilst this may appear to be a minor issue, there is an important principle at stake here. If the Government is to continue to publish reports such as the Tax Expenditure Statement, it should do so to the same standards required of public companies and ensure the users of such reports are fully and properly informed. Even more so, the Government needs to be confident that the information it is relying on to make policy decisions which may have a financial impact on taxpayers, is correct.

Informed global commentary on tax expenditures recognises that not all tax expenditures are necessarily bad. Evaluation of tax expenditures is necessary to scale back those that are not generating benefits commensurate to their cost. However, where a tax expenditure leads to a reduction in other Government spending, it is important to compare such tax expenditures with the alternative spending measures.

In the case of superannuation, Australia is still moving towards a fully-funded private superannuation system so that the Age Pension need only be relied upon as a safety net.

We have done considerable computer simulations of the effect of superannuation tax concessions on reducing the cost of Age Pensions.

We believe that there would be more informed debate if Treasury estimated the savings in Age Pension costs as a result of the superannuation tax concessions and have urged this Government to consider this.

Recommendation #5:

That the Government insists that Treasury and other Government agency officials perform to standards equivalent to those of directors of public companies, including ensuring that reports are clear and not misleading and that they promptly issue correcting statements if their reports are incorrect or being misinterpreted.

3.3 No bias or forcing of structured products

There has been some media discussion regarding the possibility of requiring superannuation funds and SMSFs to invest in particular products such as:

a. Infrastructure bonds;

b. Indexed bonds; or

c. Annuities.

We believe in principle that any such move to bias or force particular investment decisions onto SMSF trustees can only lead to a less than efficient allocation of capital within Australia.

Many organisations would be lobbying Government to take such action because of the fees they may then earn in providing the structured product.

However, any ‘structured’ product will involve costs that reduce returns to investors who may be able to provide the same outcome with more fundamental portfolio allocation.

Recommendation #6:

That the Government does not introduce any system that biases or forces investments by SMSFs.

3.4 Addressing volatility vs regulation issue

We recognise that many consider there to be a trade-off between allowing the market's volatility to impact investments vs intervention to assist stability.

The adverse impact of a GFC on long-term investment returns has been exaggerated by the media and some financial commentators and analysts. Our modelling shows that a properly structured portfolio can substantially withstand a GFC over the long-term. Whilst indexed or capital guaranteed products may be useful, investors need to be able to compare the additional cost of these with a more simple blend of shares and cash in order to make a rational decision. It should not be forced upon them.

> Recommendation #7:
>
> That the Government does not intervene into markets to provide 'stability', but allows a competitive market to develop such products and investors to have a choice as to whether to use such commercial products or manage volatility through portfolio management.

3.5 No guarantee from Government

Another trade-off is allowing competitive forces to control a market vs regulation to protect consumers.

We are generally in favour of minimal intervention into the market. Consumers are best protected by regulation that ensures transparency by product and service providers and fund trustees as discussed elsewhere in this submission. (Arguably the US Government's intervention in the mortgage market contributed to the problems leading to the GFC).

Furthermore there has been some suggestion that the Government should have 'rescued' SMSF investors from the failure of particular investments. However, we consider that the Government already provides a form of 'guarantee' or support in the extreme case of a catastrophic failure of someone's superannuation investment in the form of the Age Pension. No further 'guarantee' support is needed from Government for either the APRA-regulated funds or the SMSF sector. Such support only adds to cost and raises moral hazard issues.

> Recommendation #8:
>
> That the Government makes it clear to the market that it will not provide guarantee or other financial support to APRA-regulated funds or SMSFs in the event of any investment losses.

3.6 Adjustment to regulation of APRA-regulated funds

One of the key developments since the Wallis Review has been the establishment of a balanced regulatory structure, with APRA responsible for monitoring the financial strength of banks, insurance companies and large superannuation funds; ASIC responsible for corporations and financial services; and the Reserve Bank responsible for monetary policy and systemic stability.

The establishment of the new regulatory structure was necessary given the expected growth in superannuation funds. Although we believe that APRA should continue to supervise large superannuation funds, it may now be time to make adjustments in light of experience since 1997.

There are good arguments to support a raising of the standards of governance and transparency for APRA-regulated funds because of their role as trustees of some $970 billion in retirement savings held in 28.8 million member accounts. This can be compared with the $643 billion deposited in banks by Australian households.

Some APRA-regulated superannuation funds are very large businesses in their own right, for example AustralianSuper has funds under management of more than $60 billion.

The prudential supervision of APRA-regulated funds should be as stringent as APRA's supervision of banks and the governance standards of funds should perhaps be extended to their trustee companies and be comparable to the governance standards required of banks and other large corporations.

We acknowledge that some leading APRA-regulated funds already provide a high level of disclosure of fund performance to members and the market at large via their annual reports and websites.

However, information on the governance of the trustee companies that manage the funds and the financial arrangements between the trustee companies and the funds is not made so readily and publicly available.

In our view, trustee companies should be required to meet equivalent standards of governance and disclosure as are required of public companies under the Corporations Act and the ASX Corporate Governance Principles and Recommendations. The principles embodied in corporate law and the ASX guidelines are relevant to APRA-regulated funds though their application may not be appropriate in all respects, given their different legal structure.

For example, perhaps APRA-regulated funds should be required to hold annual public meetings of members with financial accounts being presented for discussion, as public companies must do. They should allow access for analysts and be encouraged to provide an opportunity for members and analysts to question trustee company directors about investment strategy, the performance of the fund, costs allocated to members, the governance structure, the appointment of trustees and any other issues pertaining to the fund.

It is in the interests of SMSFs to have access to comprehensive information on the governance and performance of APRA-regulated funds. In particular, financial planners and other advisers to SMSFs need access to such information so they can confidently advise their SMSF clients on managed investments as one of the options open to them.

Recommendation #9:

That APRA-regulated superannuation trustee companies should be required by APRA to meet equivalent standards of governance and disclosure as are required of public companies under the Corporations Act and the ASX Corporate Governance Principles and Recommendations.

3.7 Why SMSFs are different

In contrast to APRA regulated funds, there is no corresponding issue of trust for SMSFs as the trustees and beneficiaries of these funds are the same people. This distinction was well made in the final report of the Cooper Review in 2010 which noted the emphasis on prudential regulation of pooled superannuation funds while for self-managed funds the regulatory focus is on tax compliance. With respect to the SMSF sector, the Cooper Review was very clear that this sector required less regulation than those funds regulated by APRA because *"members' interests in the APRA Funds are not always paramount."*

> Recommendation #10:
>
> That the Government recognises that SMSFs require less prudential regulation than APRA-regulated funds – as stated in the Cooper Report – because there are no conflicts of interest. That the ATO continues to be the supervisory body for SMSFs.

We believe that the primary supervision and regulatory thrust with regard to SMSFs is on the providers of product or advice to SMSFs. ASIC is currently charged with this responsibility and that appears to be appropriate. We supported the plan to strengthen the regulation of financial advisers but note in this regard that the Government has recently announced it does not plan to proceed with these proposals.

4 Product and service providers to SMSFs

From the perspective of an SMSF trustee there are two areas where it is important that regulation is effective. They are:

- regulation of Product and
- regulation of Advice.

The current system of regulation serves only to confuse trustees (and consumers) in these areas. The issue is a structural one; ’product sales’ needs to be distinguished from ‘advice’ (whether general or personal advice). Product sales should be relatively simple and with less regulation for those licensed to produce product. On the other hand, ‘advice’ (general or personal) should only be given by those appropriately licensed and accredited by a professional association which maintains high educational qualifications, an enforceable disciplinary process and an approved code of ethics and standards which, among other things, bans conflicted remuneration and requires the clients’ interests to be paramount.

The current system is designed so that the product manufacturer (bank, insurance company, fund manager or APRA regulated superannuation fund - "Institution") becomes an Australian Financial Services Licensee “AFSL" and then in turn licenses the ‘Advisor’.

This system may have been appropriate back in the early 90's when a limited number of institutions produced product and when the sales of that product were largely via their 'tied' network of salespeople. However, the market changed very soon after whereby many new product manufacturers entered with a vast array of product and the superannuation and other laws became ever more complicated.

In this environment trustees and consumers sought independent advice but were more than often disappointed because the "advisors" were still part of and licensed to the Institutions/AFSLs, who, to add to the problem used 20th century remuneration models including commissions and trail fees as was their insurance heritage. Obtaining true independent advice has been a battle ever since.

Where an Institution/AFSL such as a bank is heavily regulated by APRA and ASIC and in many cases the ASX also and where they have a major reputation risk if their product is not true to label or is in any way deceptive, then we recognise that their identified representatives/salespeople should be able to sell a product with less red tape, rather than more. This would be on the proviso that those representatives/ salespeople are clearly identified as such and do not offer advice (either general or personal) other than factually about a product and what it is designed to achieve in a general sense. This may include comparisons with other similar products on the market.

However, a problem arises when those salespeople are held out to be more than product sellers and are presented as financial planners/advisors. This can and has resulted in SMSF trustees and other investors receiving less than objective advice and being under a misapprehension as to the qualifications and independence of the adviser. This is particularly topical at the moment when realtors and mortgage brokers are reported to be ‘advising’ new real estate investors to buy properties in an SMSF structure.

Comment #9:

The role of a professional financial planner/advisor has changed dramatically since the Wallis Inquiry.

Because of the way the financial services market has developed post Wallis and post compulsory super, the role of a professional financial planner/advisor is vastly different to that of a product sales function of even just 10 years ago. In fact while most do, some financial planners don't even advise on product. On the other hand because of the minimal RG146 education qualification to be licensed to an AFSL then realtors, life agents, mortgage brokers, property brokers and sales agents of all manner of investment vehicles and including unlicensed advisors can all describe themselves as a financial planner/advisor.

SMSFOA calls for the Government to embrace a system of regulation that will produce a more transparent view for SMSF trustees (and consumers generally) of the relationship between product sales by Institutions/AFSLs and the professional, impartial, personal advice (general and personal) offered by financial planners/advisors. A clear differentiation should exist.

Recommendation #11:

That the Government embraces a system of regulation that will produce a more transparent view for SMSF trustees of the difference between product sellers and providers of impartial financial advice (general and personal).

Further SMSFOA submits that the mooted amendments to FOFA which will remove 'general advice ' from the conflicted remuneration provisions of FOFA will not address the structural problem which is one of 'product sales' versus 'advice' (whether or not it is general or personal advice).

The regulation of product sales by Institutions/AFSLs of their own product by their own sales people (identified as such) and for which they take responsibility should be relatively straight forward.

As long as the representative/salesperson is licensed to and clearly identified as such and they do not stray into either general or personal advice then the process and even remuneration could be simplified -- saving red tape. But these people should not be described as or hold themselves out to be a financial planner/advisor.

On the other hand if an SMSF trustee goes to someone called a financial planner or advisor including those who are employed by or licensed to an Institution/AFSL, then a much higher degree of responsibility should be on the planner/advisor. They should not only be compliant with their AFSL's own procedures and rules but also they should be subject to and monitored by a professional body whose rules as to education, conflicted remuneration, best interest and fiduciary relationship to their client must be considered superior to their relationship to and rules of their AFSL and whether they give general or personal advice they should not be remunerated in a conflicted manner.

In older professions (doctors, lawyers, accountants etc) where the trust relationship is such that the advisor is in a position of power over their client (either because of skill or knowledge or both) professions have grown up around the education, conduct of members use of titles etc and in many instances the profession holds accreditation rights to the members authorisation to practice. In some cases legislative authority also exists to reinforce or even just to recognise the authority of those professions to discipline members.

SMSFOA believes that this link has been missing in the structure of this very important retail sector of the financial services industry, largely because it has grown so quickly and come from a base controlled by Institutions.

SMSFOA believes that it is time for the Government to encourage the gap to be closed, so that the profession can do its job alongside the existing general 'framework' regulation.

Consistent with the views presented above, SMSFOA requests the Government to:

1. reconsider the proposed amendments to exempt 'general advice' from the conflicted remuneration provisions of FOFA as it won't fix the actual structural problem which relates to 'product sales' rather than 'advice';
2. simplify the ability of appropriately licensed product producers to sell financial product via the licensees own identified 'salespeople' provided they are not held out to be financial planners/advisors (and don't actually give advice);
3. consider amendment to s923B of the Corporations Act to restrict the use of the term Financial Planner/Advisor or similar to persons who are accredited members of a recognised/approved professional body which maintains standards as to levels of education and professional qualification, operates codes of professional practice and conduct banning conflicted remuneration and requiring the clients interests to be paramount and had an effective disciplinary process. Such Codes could be approved by ASIC under s1101A of the Corporations Act or more directly by amendment to that Act (which amendments might reflect the provisions of the Tax Agents' Services Regulations); and
4. engage with the financial planning/advice profession to define an appropriate and simplified regime for the provision of 'general' advice but only provided by financial planners/advisors entitled to use that professional title by virtue of (3) above.

Recommendation #12:

That the Government immediately restricts the use of the term Financial Planner/Advisor or the like to people who:

1. have a very much higher educational level than under the current regulations;
2. are a member of a suitable Professional body; and
3. have signed up to a Code of Professional Practice.

5 Taxation impact on efficiency and effective allocation of capital

5.1 Imputation

There has been some suggestion that dividend imputation distorts the market place. In theory overseas investors may be disinclined to invest because they can't use the imputation credits. However, conversely, Australian investors are in theory more inclined to invest in the local sharemarket because of the availability of such credits. In particular this may be one of the reasons that the SMSF sector holds a substantial proportion of its investments in Australian shares.

On balance imputation can be considered to be contributing to the development of a strong domestic funding base for our industry and its removal would cause considerably more distortion by re-introducing double taxation.

5.2 Current superannuation system inefficient and not working

There continue to be shortcomings in the superannuation system which results in a retirement system that is not achieving its objectives and with some inequities.

Our computer modelling has illustrated how the current system is failing to achieve its intended purpose and as a result the government will be exposed to greater Age Pension costs. More judicious use of tax incentives and other ways to encourage superannuation savings would be a more effective use of government funds than payments of Age Pensions.

> Recommendation #13:
>
> That the Government undertakes a review of the superannuation system in order to better achieve its objectives in the long-term.

Australia's superannuation system as originally introduced relied on a better taxation structure and if allowed to continue could have led to the Government now being in a better projected fiscal position.

Originally, neither contributions into superannuation nor earnings on superannuation were taxed but the resultant pension was taxed at on individual's marginal tax rate.

Shortly after the compulsory SG levy was introduced for all workers, the Government introduced taxation of contributions and fund earnings so that for a time there was three-way taxation of super; on contributions, fund earnings and on pension payments. Subsequently, under the Howard Government, fund earnings and pensions paid in the retirement phase were exempted from tax which remained on contributions and fund earnings before retirement.

5.3 An alternative superannuation structure

The original system was more effective in encouraging savings, resulted in lower long-term cost to Government, substantially simpler to administer and more equitable. Such a system would impose no tax on contributions or superannuation earnings but any pension or lump sum withdrawn from super would be included in that individual's tax return and assessed at his or her marginal income tax rate. The effects would include:

a. no requirement for a separate system of taxation of the superannuation funds, considerably simplifying administration;
b. no requirement for an actuary for funds with both retired and working members and therefore better able to handle intergenerational administration of the fund;
c. retirees income would be subject to the progressive income-tax scales which would discourage lump-sum withdrawals; and
d. therefore any changes to income tax rates would impact all Australians – working and retired.

Allowing easier intergenerational involvement in an SMSF has several advantages:

i. efficiencies in the fund's administration;
ii. transfer of investment knowledge and expertise from one generation to the next; and
iii. easier cash management, as the contributions of a generation into the funds can assist in meeting the cash needs of a retired generation with less need to liquidate assets towards the end of retirement period or generally hold higher levels of cash.

We recognise that moving back to such a system will not be easy. In particular changing to such a system without prejudice to those who have accumulated retirement savings under the present system and without damage to the Government Budget will present challenges.

Changes to the structure and taxation of superannuation must only be made in the context of a holistic review of the system and consistent with a clear plan to move to a better system over time.

We do not believe that any plans to move to a better retirement system should be dismissed just because it appears to be difficult to achieve. Rather, we propose that there should be a healthy debate about how we can move to a better system without substantially disadvantaging any group.

Our preliminary analysis has shown that such a system would be a more effective use of the Government's tax incentives. It will cost the Government less in tax incentives to achieve the same savings in Age Pension costs.

Comment #10:

That a restructured superannuation tax system, with appropriate grandfathering, could be a more effective use of Government's tax concession dollar with the result that savings in Age Pension costs for every dollar of tax concession will be greater than under current system.

6 How to improve effectiveness of SMSFs Role in Financial System

There are some flaws in the current operation of the SMSF system which reduce the effectiveness of SMSFs in the Financial System.

The main ones are:

a. Much too low a limit on annual contributions;
b. Structure of contribution caps disadvantages some groups – such as women and others with disrupted work patterns;
c. Artificial constraints on the maximum number of family members in one SMSF; and
d. Unjustified ATO fee impacting net returns.

6.1 Contribution caps

A dollar limit on annual contributions may not be the most effective way to prevent abuse of the superannuation system. However, if it is retained, the limit certainly needs to be raised.

Our analysis illustrates that under the current cap levels, most Australians will not be able to save enough in superannuation to retire at reasonable replacement rates and will then become a burden on the Age Pension system.

Most people find it difficult to make substantial voluntary contributions whilst they are paying off a mortgage and raising children. It is usually during the last 10-15 years of Australians' working lives that they are able to make significant voluntary contributions. This is the time that they tend to focus on ensuring they have adequate superannuation to provide a realistic fully-funded private pension.

Our modelling of additional, voluntary contributions has shown that the current system of contribution caps prevents many Australians from saving enough in superannuation to be independent of the Age Pension. This is particularly true for older Australians who have not had the benefit of our superannuation system for all their working life.

If the CAPS were raised, for example to the $50,000 level (with $100,000 for those over 50) many more Australians would not require the Age Pension. As a result, our modelling shows that the savings in Age Pension costs would outweigh the cost of additional tax concessions.

The impact on the Federal Budget of allowing higher contributions is quite dramatic over time because it reduces the Age Pension costs, 100% of which are paid for by Government at the cost of extra tax concessions which only make up less than 10% of a final superannuation pension.

The previous Government lowered the caps substantially and then, towards the end of its tenure, raised the annual cap a modest (and unindexed) amount for persons over 50. The caps are still inadequate for most Australians and we propose that they be restored to the earlier levels; i.e. $50,000 pa but with a higher cap of $100,000 for those over 50, both indexed to AWOTE.

> Recommendation #14:
>
> That the Government immediately increases the annual contribution caps, in particular for over 50s.

6.2 Annual cap system should change

The current caps are not only too restrictive but, being annual contribution limits, they discriminate against women, self-employed and others who may have broken or volatile work patterns during their working life.

We propose that the Government allows a system of "rolling" caps so that, for example Australians can contribute $150,000 every three years ($300,000 for over 50's) – similar to the contribution limits with regard to the non-concessional contributions. This will assist women, self-employed and others with broken or volatile work patterns.

> Recommendation #15:
>
> That the Government change the annual cap system to one of rolling caps – similar to the non-concessional cap system - so that women and others with broken work patterns are not disadvantaged.

6.3 Remove artificial limit on number of members in an SMSF

It is unclear why there is a limit of 4 on the number of members in an SMSF. We would argue that if the concept is to restrict the use of an SMSF for members of one family then it would be fairer to define the limit in that way – i.e. membership of the SMSF is restricted to the spouse and descendants and spouses of the descendants of the founder of the SMSF.

Removal of artificial constraints on SMSFs may encourage intergenerational involvement in a family SMSF with the advantage that investment knowledge can be transferred and the contributions of one generation can assist in meeting the cash withdrawal needs of a retired generation, reducing the need to liquidate assets and improving the efficiency and effectiveness of the fund.

It should also allow for better opportunities for risk diversification.

> Recommendation #16:
>
> That limit of 4 on number of members of an SMSF is replaced by a more general definition limiting membership to an individual and his/her descendants and spouses.

6.4 Correct Problems with temporary offshore residence

Current superannuation law requires SMSFs to be controlled and directed from within Australia. We understand the reasoning behind this but it causes considerable disruption when beneficiaries move overseas for a period.

This problem does not occur for Australians who have their superannuation in APRA-regulated funds and needs to be corrected so that self-managed superannuation funds are on a "level playing field" with APRA-regulated funds.

We request that the Government consider amendments to allow an SMSF to continue to operate and invest funds whilst a beneficiary is overseas.

> Recommendation #17:
>
> That the Government considers changes in superannuation law to allow an SMSF to continue to operate and invest funds whilst a beneficiary is overseas, as is allowed with APRA-regulated funds.

6.5 Justify the ATO fee

We have still not seen any adequate justification as to why the ATO charges such a high fee to SMSF when most other categories of taxpayer pay no fee to the tax office for the collection, supervision and reporting of tax and tax statistics.

Some earlier modelling by us demonstrated that over the life of an SMSF, the ATO fee would have a greater impact on an individual's retirement pension than the impact of a GFC.

> Recommendation #18:
>
> That as part of a review of "Red tape" the Government reconsiders the appropriateness of the ATO singling out SMSFs for a fee and at a minimum the fee charged to SMSFs be subject to independent scrutiny.

Appendix

Summary of Comments

1. That moving to a fully-funded private superannuation system in Australia offers more benefits to the economy than disadvantages and provides a stable source of long-term capital to fuel growth in the Australian economy.
2. A superannuation system that is substantially funded from a retiree's savings during his or her working life is more equitable than a government Age Pension system paid for by taxes exacted from subsequent generations.
3. That the savings in Age Pension costs as a result of superannuation exceed the cost of tax concessions.
4. That the Australian retirement system does not now rank well within OECD and is failing to meet its objectives.
5. That SMSFs have lower level of auditor contravention reports that other categories of taxpayer.
6. That SMSFs are an efficient and well-functioning part of the financial system and invest a higher proportion of their funds within the Australian economy than APRA-regulated funds.
7. That SMSFs long-term investment horizons and stability should be attractive to infrastructure projects and growing corporations and they should not be directed into investments but be allowed to have flexibility to invest as determined by the market.
8. That SMSFs provide all Australians with an alternative to APRA-regulated funds and are suitable for almost all Australians who want to and have the ability to manage their own affairs.
9. The role of a professional financial planner/advisor has changed dramatically since the Wallis Inquiry.
10. That a restructured superannuation tax system, with appropriate grandfathering, could be a more effective use of Government's tax concession dollar with the result that savings in Age Pension costs for every dollar of tax concession will be greater than under current system.

Summary of Recommendations

1. That the Government endeavours to provide a more certain and efficient superannuation framework and encourage a culture of saving.
2. That the Government follows Cooper's recommendation and undertakes a formal review of the decision to allow SMSFs to gear up property in their fund.
3. That the Government considers better development of long-term bond market and ways to allow and encourage participation by SMSFs in such market.

4. That the Government reaffirms its policy of encouraging all Australians to retire on a reasonable superannuation pension, and to provide adequate structure and rules to allow this.
5. That the Government insists that Treasury and other Government agency officials perform to standards equivalent to those of directors of public companies, including ensuring that reports are clear and not misleading and that they promptly issue correcting statements if their reports are incorrect or being misinterpreted.
6. That the Government does not introduce any system that biases or forces investments by SMSFs.
7. That the Government does not intervene into markets to provide 'stability', but allows a competitive market to develop such products and investors to have a choice as to whether to use such commercial products or manage volatility through portfolio management.
8. That the Government makes it clear to the market that it will not provide guarantee or other financial support to APRA-regulated funds or SMSFs in the event of any investment losses.
9. That APRA-regulated superannuation trustee companies should be required by APRA to meet equivalent standards of governance and disclosure as are required of public companies under the Corporations Act and the ASX Corporate Governance Principles and Recommendations.
10. That the Government recognises that SMSFs require less prudential regulation than APRA-regulated funds – as stated in the Cooper Report – because there are no conflicts of interest. That the ATO continues to be the supervisory body for SMSFs.
11. That the Government embraces a system of regulation that will produce a more transparent view for SMSF trustees of the difference between product sellers and providers of impartial financial advice (general and personal).
12. That the Government immediately restricts the use of the term Financial Planner/Advisor or the like to people who:
    a. have a very much higher educational level than under the current regulations;
    b. are a member of a suitable Professional body; and
    c. have signed up to a Code of Professional Practice.
13. That the Government undertakes a review of the superannuation system in order to better achieve its objectives in the long-term.
14. That the Government immediately increases the annual contribution caps, in particular for over 50s.
15. That the Government change the annual cap system to one of rolling caps – similar to the non-concessional cap system - so that women and others with broken work patterns are not disadvantaged.
16. That limit of 4 on number of members of an SMSF is replaced by a more general definition limiting membership to an individual and his/her descendants and spouses.

17. Recommendation #17: That the Government considers changes in superannuation law to allow an SMSF to continue to operate and invest funds whilst a beneficiary is overseas, as is allowed with APRA-regulated funds.
18. That as part of a review of "Red tape" the Government reconsiders the appropriateness of the ATO singling out SMSFs for a fee and at a minimum the fee charged to SMSFs be subject to independent scrutiny.