SMSF Owners' Alliance
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SMSFs a force for good in the Australian economy

In our submission to the Financial System Inquiry, lodged today, the SMSF Owners' Alliance notes that Australia's $1.8 trillion superannuation system has developed well over the last two decades. The Self-Managed Superannuation Fund sector, in particular, has been growing strongly and with over $520 billion in assets is set to be a key driver of growth of the Australian economy.

A feature of SMSFs is that they mainly invest in the Australian economy. SMSFs devote less than 1% of their assets to offshore investments compared to nearly 30% for APRA-regulated funds.

The domestic investment focus and long-term investment horizons of SMSFs should make them attractive sources of funding for growing companies and for infrastructure projects. But SMSFs must not be forced into these investments – their trustees must retain the freedom to invest in the market as they see fit.

SMSF investment in debt securities such as government and corporate bonds, is relatively small compared to equity investment in company shares. While it is now easier for SMSFs and other retail investors to purchase Australian Government Bonds via the ASX, the FSI should consider ways in which debt securities can be made more attractive to SMSFs, including limited government underwriting of debt issues.

All is not rosy with superannuation. The adequacy of Australia's retirement income system needs to be reviewed as it is not meeting its objective of allowing most people to retire on a reasonable replacement rate of 60-70% of their pre-retirement, after-tax income.

We say the Government should get superannuation back on track by encouraging people to save more. A retirement income system funded from savings during a person's working life is more equitable that a government pension paid for by taxing future generations.

As an immediate step, voluntary contribution levels should immediately be restored to their previous levels of $50,000 for under-50s and $100,000 for over 50s. This will help people turbo charge their superannuation savings in the latter stage of their working lives.

People should also be allowed to average their contributions over a period – we suggest $150,000 over three years for under 50s ($300,000 for over 50s). This will help those whose employment patterns are broken and whose incomes fluctuate, for example women leaving the workforce to raise a family.

The cost of superannuation tax concessions is far out-weighed by savings in government pension costs. A pension is 100% funded by taxpayers yet tax concessions make up only 10% of the money that people save into superannuation.

Among other issues, we note that with SMSFs, the interests of the trustees and beneficiaries are aligned as they are the same people, in contrast to the APRA-regulated industry and retail funds where people's savings are managed by trustee companies. We say these trustee companies should be required to meet the same standards of transparency and governance as publicly-listed companies. Because there is no inherent conflict of interest in the management of SMSFs, it is appropriate for them to be subject to less regulation and they should continue to be supervised by the Australian Taxation Office. However the cost of ATO supervision needs to be justified and the Government should look at this in its 'red tape' review.

When it comes to investment advice, our submission says any change to the FOFA laws must allow SMSF trustees to clearly know the difference between a product seller promoting a particular investment for their employer and a professional investment adviser acting only in the best interests of the client.

Only those with qualifications recognised by a professional body and subject to a code of practice may be able to call themselves financial planners.

SMSFOA's full 39-page submission to the Financial System Inquiry can be viewed on our website: www.smsfoa.org.au

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