SMSF Owners' Alliance
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FSI Interim Report raises questions for all SMSF members to ponder

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Today's interim report by the Financial System Inquiry (FSI) recognises the factors that drive the success of self-managed superannuation funds but also poses questions that the one million Australians who have SMSF accounts need to think about carefully.

We concur with the FSI's view that a shared philosophy and statement of objectives is needed. When the purpose of superannuation is clearly stated then policy resolution within an agreed framework becomes easier.

In Section 4, discussing the stability of superannuation policy settings, the interim report notes that the majority of superannuation tax concessions go to high income earners who would save enough for their retirement anyway. It says some stakeholders have questioned whether this is equitable.

Also in Section 4, the report canvasses leverage in SMSFs and contemplates a return to previous policy under which geared investment was not allowed.

In Section 8, discussing retirement incomes, the report raises the prospect of mandating 'longevity protected income streams' (annuities).

The report also asks to what extent the FSI should be concerned about the operating expenses of low-balance SMSFs and whether there should be any limitation on the establishment of SMSFs.

SMSFOA will make a further submission to the FSI in response to these and other questions. For today, we make these observations:

Super tax incentives

To state that higher income earners get a greater dollar benefit from superannuation tax concessions is simplistic and ignores the fact that contributions to SMSFs are capped and the tax concession is therefore limited. Full income tax is paid on contributions to super above the voluntary contribution limits.

It also fails to take into account that Australians on higher incomes pay substantially more tax even after superannuation tax concessions. One of the issues with our tax and welfare system is that most people do not actually pay any tax net of welfare and government services.

Leveraging

SMSFOA acknowledges the FSI's concern about geared investment by SMSFs and welcomes further examination of this issue. While only a small minority of SMSFs borrow, the number that do so is growing and risk is increasing. It is of particular concern that some SMSFs may be established, on dubious advice, to invest in one, geared asset - often residential property although the proportion of SMSF assets held in residential property remains low at around 3.5%.

We will comment further on whether a prospective ban on borrowing is necessary in our follow-up submission to the FSI. Other solutions include lenders imposing stricter conditions and better regulation of property promotors and 'advisers'.

Retirement incomes

The FSI is right to focus on ensuring that retirement savings last long enough to sustain people adequately as they live longer, particularly in the last stage of life when support costs can be expected to rise.

SMSFOA would support moves to restrict lump sum withdrawals that reduce account balances below the point where they will fund a retirement income sufficient to avoid recourse to the age pension.

Taking out an annuity may provide a reliable income stream that suits some people. However, it should not be made compulsory or made a default option.

The essence of self-managed superannuation is that people take responsibility for managing their own retirement financing and they should not be forced into longevity products, and bear the cost of them, when they quite capable of managing their own assets to produce a reliable flow of retirement income.

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