SMSF Owners' Alliance
Limited ABN 96 161 052 464
Not-for-profit public company

Chairman's Report

2012-13 Annual General Meeting and Members' Information Meeting

I am pleased to report to Members that the SMSF Owners' Alliance has made significant progress in the year since the company was founded. In that short time, we have succeeded in establishing our presence as a credible voice speaking up for Australia's one million SMSF trustees and beneficiaries.

We have been recognised by the Government, by regulators, the media and the superannuation industry as a new player in the public policy discussion about superannuation in general and SMSFs in particular and that we have views that should be listened to.

We have developed good working relations with Government Ministers and their policy advisers, engaged in consultation with Parliament and official bodies like the Treasury, the Australian Tax Office and the Australian Securities and Investments Commission.

In our policy work we have developed submissions to government based on original, independent research. In the media, we have been forthright in promoting and defending the interests of SMSF owners.

And we have some runs on the board. The Abbot Government's decision last week to scrap the Labor Government's 15% earnings tax on super accounts was an outcome for which we had fought strongly.

When the founding directors established SMSFOA a year ago, we deliberately chose the word 'owners' to convey the sense of self-responsibility and proprietorship inherent in the decision by people to set up a self-managed superannuation fund. In taking this decision, people are taking charge of their own retirement savings strategy and making a commitment to be financially self-reliant when they stop work. They are entering into an implicit contract with the government to minimise drawing on a publicly funded pension during their retirement and advanced age in return for a tax incentive to save during their working years.

This implicit contract is good for Australia because it reduces reliance on the pension and good for working Australians and their families because it provides a way to maintain their standard of living through their increasingly long retirement years.

It's also good for the economy in general with a total super savings pool of $1.5 trillion in capital to support investment, maintain employment and stimulate economic activity.

SMSFs are more than doing their bit – the $500 billion held in SMSFs is the largest and fastest growing slice of the superannuation savings pie.

Self-managed superannuation funds have been phenomenally successful largely because they give people a chance to take control of their own retirement savings strategy and secure their own financial future.

People are remarkably good at managing their own investments. While they have generally conservative portfolios, they have held their own in terms of return on investments and have outperformed APRA regulated funds at various times in the economic cycle.

In spite of this success, or perhaps because of it, SMSFs are not universally loved and face serious threats.

- From governments who eye the pool of super savings as a way to top-up budget shortfalls.
- From the large APRA regulated funds who see the growth of SMSFs undermining their own customer base.
- From bureaucrats and academics who see the tax incentives for superannuation as too generous.

The first of these threats became real last April when the former government announced that it would place a 15% tax on superannuation account earnings over $100,000. This was dressed up by the Treasurer at the time as being a fair reform. In reality, it was in response to a political problem at the time and a grab for cash to shore up a failing budget – just as we had foreseen might happen when we set up SMSFOA.

A deeper motive for the tax may have been to wind back the benefits of investing in super and undo the progressive changes made by the Howard – Costello government. Under the Rudd-Gillard governments we saw voluntary contribution caps cut in half and a stated intention to re-introduce a tax on earnings in the pension phase.

Fortunately, Joe Hockey and Arthur Sinodinos decided not to proceed with the unfair, inefficient, impractical and retrospective tax on earnings.

We're not against change, but if people are to have confidence in the system then changes must be part of a considered review of the purpose and structure of superannuation with full public consultation and grandfathering of changes as appropriate – not ad hoc responses to budgetary or political problems.

There's nothing fair about unilaterally breaking the implicit contract between the Government and those who commit to financial independence in retirement.

We also hope that the new Abbott-Hockey government will raise voluntary contribution caps back to the levels set by the Howard-Costello government and encourage a greater flow of funds into superannuation. However, we also understand that the government's first priority must be to repair the budget.

The risk of a tax raid by a cash-strapped government is not the only danger to SMSFs. Another is the self-serving argument of the major APRA regulated funds who complain there is not a level regulatory playing field for SMSFs. Clearly they see the success of self-managed funds as a threat to their own business. They want to make it harder and costlier for people to set up SMSFs to stem the flow of funds into self-managed funds.

The level playing field claim is nonsense because there's a fundamental difference between APRA regulated funds and self-managed funds. Pooled funds are prudentially regulated by APRA because they hold in trust billions of dollars in savings for millions of Australians. Self-managed funds do not need this level of regulation because they are managed by trustees whose interests align with the interests of beneficiaries. They are one and the same. They act in their own best interests. There is no issue of trust.

If there is an issue that requires government attention, it lies in the lack of transparency in the governance of the major APRA regulated funds which are not held to the same level of disclosure as, for example, public companies. And nowhere near the level of disclosure of SMSFs to their beneficiaries. We are pleased to hear that the new government intends to address this.

The other threat to the future of SMSFs lies in the argument that the tax incentives for superannuation savings are too generous and cost the budget too much. This argument often revolves around the big Treasury number of $32 billion which is claimed to be the cost to the budget of super tax concessions. Early in the piece we challenged this number. Apart from it being derived incorrectly, the premise that lower tax incentives will result in budget savings is wrong because any reduction in the foregone cost of tax incentives will be offset by the higher cost of pensions. The simple equation is - if there's less money going in to superannuation, there'll be more money paid out in pensions.

While the argument over the $32 billion number may sound a bit theoretical, in fact it is critically important because that number is often used by critics to claim the tax incentives for super savings are too generous and should be wound back. The claim that too much of the super tax incentives are going to people on higher incomes, yet our research shows that the tax benefits derived from superannuation are relatively less for people on higher incomes. The more you earn, the lower your super tax benefit will be as a proportion of the total tax you pay.

When we started looking at the policy environment in which SMSFs exist, we quickly came to realise that we had to look at the bigger superannuation picture rather than just focus on the SMSF sector. In particular, it became clear that under the present contribution limits, superannuation is falling well short of its objective of providing a comfortable retirement for most people.

The 'Pension Sustainability Model' developed by our Director of Research, Malcolm Clyde, clearly showed that people on average or even twice average earnings, even after a lifetime of work, are not going to have enough saved in super to last throughout their retirement and give them a reasonable standard of living.

The solution is not to raise mandatory contributions which can put a burden on people when they have other priorities, like buying a house or educating their children. The solution lies in a more flexible system that allows people to make up for time out of the workforce and to turbo-charge their superannuation later in their working lives.

These points were made in our major pre-Budget submission to Treasury which was lodged back in January and signalled our entry to the superannuation policy debate.

In that submission we also pointed out – based on our research – that every dollar invested by the Government in a super tax concession is repaid at least three times over in pension savings over a working life and retirement for those on the average wage and many times over for higher paid workers. That fact challenges governments to take a long term view on the social and economic benefits of superannuation.

Apart from research, we have been successful in raising our profile in the media and SMSFOA has become the ‘go to’ body for journalists looking for a comment from the SMSF sector. We have appeared on national television and radio, in major newspapers and on dozens of media outlets across Australia. Of course, media mentions are fleeting and we have to continue to work hard on building our public profile.

The same goes for building our membership base. We have a solid core of committed members who share our belief in self-reliance and share our concern that the success of SMSFs is under threat.

Having established SMSFOA as a credible and competent voice for self-managed funds, we now need to build on what we have achieved in our first year and grow the membership base. One initiative we are taking is to present a seminar early next month in the ASX auditorium which will provide interesting and useful information for existing and potential members. This is a pilot project that we aim to expand into an annual series of briefings in Brisbane, Melbourne, Sydney and perhaps farther afield.

In the meantime, I urge all of our current members to speak to your friends and associates about SMSFOA and the work we are doing and encourage them to come on board. Membership is a nominal but prudent investment in protecting the assets they have built up over a lifetime.

Bruce E Foy
Chairman
SMSF Owners’ Alliance Limited
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