

MEDIA RELEASE

Research reports finds

SMSFs still on track for comfortable retirement

28 July 2016: Most SMSF trustees can be confident that they are well placed to live comfortably in retirement, according to a new research report from the SMSF Association and SMSF retirement experts Accurium.

The report, titled “*Are trustees prepared for retirement?*” which is drawn from a database of more than 65,000 SMSFs (about 130,000 trustees) who are either transitioning to or are in retirement, says that despite the lower than average investment returns in the 2015 financial year and the less than favourable economic outlook, most trustees “can be reasonably confident of affording a comfortable retirement.

“The majority of SMSF trustees can be reasonably confident, with an 80% probability, of entering retirement being able to afford a comfortable standard of living, which is defined as a couple spending \$58,922 a year at age 65,” the report says.

This finding comes with a caveat – the proportion of SMSF trustees who aren’t in this position has increased from 25% to 30% compared with the findings in the previous year’s report.

SMSF Association Managing Director/CEO Andrea Slattery says: “This significant research highlights the fact even in the face of uncertain and lower yielding investment markets, the SMSF sector still provides the best option for people to enjoy a dignified and secure retirement.

“But the fact there has been a slight growth in the number of trustees who can’t be confident of achieving their lifestyle goals is cause for concern and highlights the need for them to get specialist advice.

“As the report says, this is a real opportunity for those advising SMSF trustees to help their clients before and during retirement.

“Decisions around how much to spend each year in retirement, how essential expenditure will be met and how to adjust asset allocations in light of potentially lower yielding markets are the most important part of any retirement plan. It is in this area where accredited SMSF professionals have the competency to provide real value to their clients who are nearing and in retirement.”

She says the report’s conclusions also reiterate the need to establish a stable, long-term superannuation policy so Australians can plan appropriately for retirement.

A key finding of the report is that the median investment return for a two-member SMSF was 4.2% for the 12 months from 1 July 2014 to 30 June 2015. The median two-member SMSF balance lifted to \$1.12 million.

Douglas McBirnie, Accurium's Senior Actuary, said: "This is the first report that shows the changing financial health of SMSFs for the year, following the deadline for 2015 SMSF annual returns. Our research shows that SMSFs are generally well prepared for retirement. However, lower expected investment returns means that trustees need to review their retirement plans to ensure their capital remains sufficient to support their retirement goals.

"Our retirement **healthcheck** methodology looks at more than 2,000 potential investment outcomes. It gives an accurate view of the level of confidence SMSF trustees can have in their retirement plans. The research shows the median desired level of spending in retirement for SMSF households is \$75,000."

The report also highlighted that 80% of SMSF trustees do not intend leaving any form of inheritance for their families, contrary to the widely-held belief that bequests are central to SMSF retirement plans.

The report shows that a significant number of SMSFs will be affected by proposed superannuation changes in the 2016/17 Federal Budget, namely:

- ◆ As retirement balances are higher for SMSFs than the general population, 19% of SMSF trustees over 65 had total balances in excess of the proposed \$1.6 million transfer cap.
- ◆ During the 2015 financial year, 57% of trustees made concessional contributions to their fund, with 31% contributing above \$25,000 during the year.

However, the report concludes that SMSFs will remain an attractive vehicle for retirement savings in the post-budget environment as keeping the excess of over \$1.6 million in the SMSF, at a 15% tax rate is likely to be more beneficial than withdrawing it from superannuation altogether.

Research database

Accurium's research takes a probability-based approach which factors in more than 2,000 investment scenarios to show the capital levels required for trustees to retire with confidence of achieving the retirement lifestyle they want.

Statistical analysis is drawn from a database of over 65,000 SMSFs (approximately 130,000 SMSF trustees) which precedes the Australian Taxation Office's Statistical Overview for 2015, which is likely to become available in late 2016.

Accurium's dataset represents SMSF households who are phasing into retirement and, together with its industry-leading retirement **healthcheck** model, gives unmatched insight into how well prepared SMSFs are to face retirement.

Executive summary

The SMSF Association and Accurium have come together to present this extensive study of over 65,000 SMSFs looking at how retirement wealth of Australia's SMSF trustees has changed over the 2015 financial year. Based on Accurium's extensive database, it provides the first detailed figures to be released for the 2015 financial year and considers how well prepared SMSF trustees are for retirement.

The research also includes analysis of the impact of key superannuation measures proposed in the 2016-17 Federal Budget on SMSF trustees.

Retirement adequacy

- ◆ The median SMSF balance increased by 3.0% over the 2015 financial year, based on a median investment return of 4.2%. This is lower than the average return over the previous 5 years of 6.2% p.a.
- ◆ The current lower return environment means retirees need more in savings to achieve their retirement goals. Accurium's estimate of the amount a 65-year-old couple need in retirement savings to be reasonably confident¹ of affording a comfortable retirement² has increased to \$702,000. Around 30% of SMSF couples have insufficient balances in their SMSFs to afford this lifestyle, up from a quarter last year.
- ◆ 65 year-old SMSF couples with aspirations of a higher standard of living will need \$1,886,000 in savings to be reasonably confident of affording \$100,000 p.a. in retirement. The proportion of 65 year-old SMSF couples with sufficient assets in their SMSFs to support this lifestyle has fallen from 34% to 29% over the year.
- ◆ An analysis of the detailed retirement spending plans of SMSF households shows that the median desired spending level is \$75,000 p.a. Around 30% of SMSF households plan to spend \$100,000 p.a. or more in retirement.
- ◆ Helping to dispel the myth that SMSFs are commonly used as estate planning tools, our study found that fewer than one in five SMSF households included an explicit desire to leave a bequest in their retirement plans.
- ◆ Based on actual spending plans and household wealth, our study found that two in five SMSF households can't be confident that their retirement plans are sustainable. Only a third can be very confident that their desired spending levels will not see them outlive their savings.
- ◆ Our analysis revealed a clear correlation between the sustainability of SMSF households' retirement plans and their level of wealth, suggesting that the SMSF trustees in our study may not be adjusting their spending levels to match their means. This presents a real opportunity for SMSF practitioners to help their clients optimise their retirement plans.

Impact of 2016-17 Federal Budget changes

- ◆ Our study found that almost one in five SMSF trustees over the age of 65 have balances of over \$1.6 million meaning they are likely to be impacted by the proposed retirement balance transfer cap. Around 8% of two member SMSFs have both members with balances in excess of the cap. Even so, for most SMSF trustees, keeping the excess over \$1.6 million in

¹ 'Reasonably confident' is defined as requiring an 80% probability of the required retirement spending level being sustainable for life, allowing for tax and Age Pension entitlements. To be 'very confident' of their retirement plans being sustainable, we assume SMSF retirees would want a 95% probability of not outliving their savings. See Appendix 2 for detailed methodology and assumptions.

² As defined by the ASFA Retirement Standards.

accumulation is likely to be more beneficial than withdrawing it from superannuation altogether.

- ◆ Nearly a third of the SMSF trustees in our study made concessional contributions in excess of the proposed \$25,000 cap. Of those trustees contributing more than \$25,000, 70% already have balances in excess of \$500,000 meaning that they cannot take advantage of the proposed 5 year 'look back' rule.
- ◆ Over 48% of the SMSF trustees in our study would have been affected by one or more of the proposed superannuation changes, had they been in place for the 2015 financial year. With their higher average balances, SMSF trustees are likely to be most affected by the Budget changes.

<Ends>

About SMSF Association

The SMSF Association is the leading and authoritative voice for the SMSF sector, established to improve the quality of advisors, the knowledge of trustees and the credibility and health of a vibrant SMSF community. The Association's core beliefs embrace every Australian having the right to a good quality of life in retirement and having the right to control their own destiny. Representing professionals providing a range of strategic advice and services across various professional disciplines in the complex area of SMSFs, the Association also engages directly with trustees to assist them to become better educated and informed. The SMSF Association is an advocate for the highest professional standards to ensure SMSF trustees always receive the best advice and to continue to build the integrity of the SMSF sector as a major source for our nation's prosperity for today and our future.

About Accurium

Established in 1980 and now part of the Challenger Limited group, Accurium provides a range of services to self-managed superannuation funds (SMSFs) in, or transitioning to, retirement with the help of accountants and other SMSF practitioners.

Accurium leads the SMSF market for actuarial certificates, placing it in a unique position to provide analysis on SMSFs in the retirement phase. Accurium supports more than 65,000 SMSFs which are paying pensions and thus require an actuarial certificate, giving Accurium access to an unrivalled amount of information on which to undertake research to assist accountants and SMSF practitioners provide quality service to their clients.

Further Enquiry:

Accurium

Chelsea Woodhams, Marketing Coordinator, Accurium, 1800 203 123

SMSF Association

Jessica Beare, National Marketing & Communications Manager, SMSF Association, 08 8205 1914