

Institute of Actuaries of Australia

**Super Policy
Forum**

Industry Views

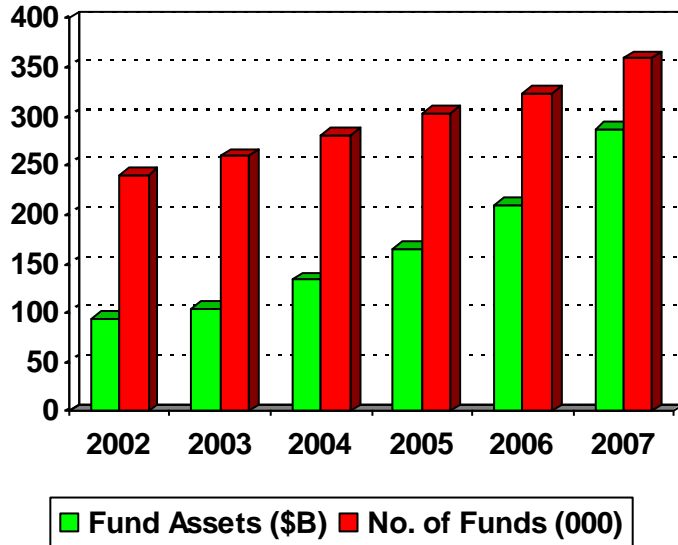
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**SMSF Professionals' Association of Australia Ltd
(SPAA)**

SMSF Industry

APRA Statistics December 2007



- 26% of \$1.2t - \$301.1b
- 99.9% of all funds – 380,000
- Increase of \$103b in SMSF in 12months
- 2000 (3800) new funds per month
- 2nd fastest Super segment
- Ave fund balance \$830,000
- Ave member balance \$440,000approx

Deloitte Research modelled for 2021

- Super - \$4.36T
- SMSF - \$1.47T - 34% (largest sector)

Deloitte July 2007

Too big to ignore?

Projected Growth

Asset Size (\$bn)	2006	2011	2016	2021
Corporate	68	66	63	57
Industry	172	349	595	912
Public sector	158	239	317	384
Retail - personal	332	580	898	1276
Self managed	234	490	884	1469
Other	47	43	40	38

SMSFs to be the largest sector by asset size from 2017

Source: Deloitte 2007

Summary of SPAA Submission

ATO as the main Regulator, supported by ASIC and APRA roles

- + Increased ATO prudential, operational and administrative powers
- + Specialisation of professional advice
- + Qualified competent specialist SMSF auditors
- + Increase in trustee SMSF knowledge and skills
- + Evidence and empirical based research for decisions
- + Removal of possible barriers to entry

= *Good Governance for SMSF sector*

*Myth*conceptions

- Administrative transparency
- Cost comparisons
- Performance comparisons
- SMSFs are only viable if balances are >\$200,000
- Trustees/members level of education
- Minimum advice requirement - RG146?
- SMSF recommendations by professionals
- Financial Planners are the only advisors to SMSFs
- SMSFs are vulnerable to aggressive marketing

Questions to answer

- Who do we need to provide for - demographics?
- What periods are we providing for & how long do we need to save for?
- How much is required or adequate?
- How do we source the capital?
- What timing issues should be taken into account?
- What are the savings & consumption patterns?
- Do we increase the pot &/or stop the leaks?

Who are we providing for?

- Ageing workforce
- Types of personalities
- Fertility rates – changes in family dynamics
- Migration & immigration rates
- Different generations - ageing of the aged
- Changes to retirement dates - 65, 75
- Change compulsory retirement – 55, 70

Ageing and the Workforce

- Supply factors – change in balance between retirees and new entrants
- Ageing within workforce, declines in productivity
- Shifting demand for different types of workers
- Unfavorable intergenerational balance
- Age heaping problem
- Varies between sectors

“Over the next couple of decades nothing will impact OECD economies more profoundly than demographic trends and, chief among them, ageing”

Jean-Philippe Cotis
Chief Economist, OECD
March 2005

Projections of Australia's Aged and Working Age Population

Source: ABS Estimated Resident Population Data and Projections

Year	Number by Age			65+ as %
	0-14	15-64	65+	15-64
2003	3,981,538	13,344,685	2,546,423	19.1
2011	3,840,000	14,532,900	3,155,600	21.7
2021	3,752,700	15,172,300	4,443,400	29.3
2031	3,826,400	15,348,100	5,741,000	37.4

Annual Growth Rate (%)

2003-11	-0.45	1.07	2.72
2011-21	-0.23	0.43	3.48
2021-31	+0.19	0.12	2.60

What periods are we providing for?

- Look at ordinary savings
 - Super is LT
 - How long should we save
- Working life 35 years
- Retirement life – 35 years
- Find indicative savings patterns
- Early retirement & lifestyle

How much is required?

- 9% not adequate (ASFA)
- Poverty comparisons
- FACS levels
- Centralised govt system / scheme (Singapore) or extreme
- OECD private pensions
- Empirical research required

The multiple personalities of the HNW investor



Increase the pot?

Short term & Long term

- Increase SG & other compulsory contributions
- Increase ability to voluntarily contribute
- Increase tax benefits/credits for saving & consumption
- Change caps – start earlier and graduate
- Financial education and habits
- Increase attractiveness of Superannuation
- Change retirement age and compulsory circumstances
- Link to health and insurance
- Capital appreciation & inheritance

Stop the leaks?

Short term & long term

- Review fees and commissions
- Good advice & best practice
- Increase education, knowledge and skills
- Remove CGT for pension rollovers
- Remove barriers to entry
- Resolve portability issues
- Keep super in the system
- Remove inequities
- Early access schemes

Fee Review

Rice Warner - 2006

Segment	Expense %
Public	0.70
Corporate	0.81
SMSFs	0.87
Industry	1.13
Retail	2.10

APRA – 2007

SAF – > \$200K

ISFA - 2006

SMSF – 3rd lowest

RBA – 2003

SMSF – similar to industry

Performance Review – ROA %

Yr to June	SAF	Non-SAF	Difference
1997	15.25	11.10	4.15
1998	3.17	7.19	-4.02
1999	11.28	8.16	3.12
2000	8.87	9.71	-0.84
2001	7.64	4.18	3.46
2002	0.86	-3.81	4.67
2003	1.94	-1.06	3.00
2004	13.10	11.20	1.90
2005	17.10	11.10	6.00

OECD - Encourage greater pension savings

- Traditionally – tax savings inefficient
- Mandatory private pensions – problems
- Soft Compulsion – opt out
- Increase eligibility
- Financial education & awareness campaigns
- Tax credits as well as tax deductions
- Incentives for firms to retain and hire older workers
- Helping older workers remain in jobs or find new jobs

Need for a Comprehensive Strategy

- Demographic
- Labour Force
- Economic
- Financial
- Social Security
- Different generations of retirees

Questions?

Thank you for your attention