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

As the super landscape changes, SMSFs must adapt

The Governor General has signed the superannuation changes into law. The politicians have moved onto other things. The ATO is producing reams of guidance on how the new rules will work. Accountants, advisers, auditors, lawyers and valuers are bracing for a rush of work.

Meanwhile SMSF trustees are on a steep learning curve.

One big difference between self-managed funds and pooled funds that are managed by the large industry, retail, corporate and government funds is that each SMSF is unique, reflecting the circumstances, objectives, financial capacity and investment strategies of its owners.

So when changes are made to the superannuation system the trustees of each SMSF must consider how they will affect the particular needs and aspirations of its members. Typically the trustees and members are the same people so they can be relied on to act in their best interests but obviously they should do so after careful thought and with a good understanding of how the new rules will affect them.

So while the clock is ticking towards 1 July, it's important not to take hasty action without sufficient knowledge and the benefit of good advice, otherwise outcomes could be less than optimal. For instance, there have been media reports that some SMSF owners are putting their property on the market because of concerns about capital gains. If this is really happening, and is not just real estate hype, hopefully it's not because they fear all of their capital gains since acquiring the assets will be taxed. This is not the case as the cost base of assets can be reset from 1 July; but remember you must elect to take this CGT relief.

Apart from the CGT relief, it seems there is not much wriggle room. For SMSF members, the inability to segregate assets and the application of the proportionate method for both earnings and realised capital gains means they will be taxed according to the relative size of the assets in their $1.6 million pension account and their accumulation account. Shuffling assets around probably won't make much difference.

Will the changes (I refuse to call them 'reforms' because they are not) to contributions and taxation lessen the attraction of self-managed superannuation? It may be that for some people managing their own super is becoming too complex. Changes to the rules, particularly when they are retrospective and disrupt planning for a financially secure retirement, are unsettling and lessen confidence in the system.

So it may be that the phenomenal growth in self-managed superannuation to the point where it is the largest segment in the superannuation sector, holding more asset value than either industry or retail funds, will slow down. However superannuation will still be an effective investment and the prime attractions of self-managed super – control, flexibility and cost – will remain powerful motivators.

While we all come to grips with the practical effects of the superannuation changes as they will affect our own portfolios, the Senate Economics Committee is looking at the legislation setting an objective for superannuation.

This legislation is a belated attempt to justify the changes already passed by Parliament and puts the cart before the horse.

Instead of starting with legislation defining the long-term purpose of superannuation and within that context setting the rules to achieve the objective, we got a cartful of changes to the rules driven by the government's short-term revenue needs rather than by long-term social and economic policy.

It is a missed opportunity to rejuvenate and recalibrate the superannuation system, which is failing to deliver adequate retirement savings for most people.

Defining superannuation in terms of merely being a 'substitute or supplement' to the age pension is setting a very limited goal that will ensure the prediction in the latest Inter-generational Report - that by the middle of this century two thirds of Australians will still be dependent on the age pension, funded by younger generations - will come to pass.

One thing we should draw from the policy debate since the super changes were announced in last year's budget is the need for a strong, united and effective voice for the one million plus Australians who have taken responsibility for their own financial security in retirement.

Without such a voice, SMSF members can't match the sophistry of left wing think tanks and the lobbying power of the major industry and retail funds who will always be pleased to see governments hammer self-managed funds because they are losing market share.

Without such a voice, SMSF members and their savings are sitting ducks for greedy governments.

While the politicians may be done with super for now, it is inevitable they will again try to pare back superannuation benefits to make up for their inability and unwillingness to get government spending under control. The false arguments about unfair tax concessions, tax minimisation and estate planning will be trotted out again.

The SMSF sector needs to be ready, organised and capable to defend Australians who have made financial independence in retirement a priority and who are actually making this desired outcome of superannuation a reality.

SMSF Owners' Alliance – February 2017