TAX TALKS

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31 | Class SMSF Benchmark Report December 2017

The quarterly published Class SMSF Benchmark Report is a great read. It gives valuable insights into the SMSF landscape. We met with Kevin Bungard, the CEO of Class, to get his thoughts on some of the most interesting statistics in the December 2017 issue.

Class SMSF Benchmark Report December 2017

Class compiles its benchmark reports using de-identified data extracted from across the Class Super user base. It receives transaction and market data feeds from a wide range of banks, brokers and wrap and other platform providers. The richness and timeliness of this data provides a unique up to date view across a significant portion of the SMSF sector. And hence enables Class to create its benchmark reports.

Here is a short summary of the notes we prepared for our talk with Class. But please listen to our interview with Kevin Bungard, CEO of Class, for a proper insight.

To listen while you drive, walk or work, just access the episode through a podcast app on your mobile phone.

Pension vs Accumulation Phase

The average age of pension SMSF members is 70 years, compared to 52 for accumulation SMSF members. So SMSF members in pension phase had almost 20 extra years to accumulate wealth. As a result the average balance in pension SMSFs is 151% higher than the balance in accumulation SMSFs. In numbers this is $1,939,985 compared to $772,947. In fact, pension SMSFs make up half of all funds, but they hold 71% of total net assets.

Pension SMSFs (funds with at least one member in pension phase) make up half of the 600,000+ SMSFs. The general assumption is that these funds tend to be more conservative and chasing yield. Let’s look at this in more detail.

Asset Allocation

Class data reveals some clear, typically more conservative asset allocation preferences for pension SMSFs:

Pension SMSFSs are 3 times as likely to invest in defensive debt securities compared with accumulation SMSFs.

Although they hold only slightly more cash than accumulation SMSFs, they allocate a 43% greater proportion to domestic equities compared to accumulation SMSFs.

They’re less interested in direct property. The average accumulation SMSF allocates nearly 3 times as much to residential property

Accumulation SMSFs are far more likely to invest in residential property than pension SMSFs.

Accumulation SMSFs are 12 times more likely than pension SMSFs to borrow money to invest in residential property

Yield

On average, pension SMSFs earn a 7% higher gross dividend yield on their ASX 200 shares compared to their accumulation peers (6.18% vs 5.77%). The ASX 200 index provides a yield closer to 5.6%. Suggesting that pension SMSFs, are as assumed, attracted to higher yield stocks.

In March 2016, when Class published its first benchmark report, over 55% of SMSFs held Telstra (TLS). In this new report it is now only 50% of SMSFs (holding domestic shares) that own Telstra shares. Could some of that shift be due to Telstra's August 2017 announcement to reduce dividend payouts?

Domestic v International

Pension SMSFs strongly prefer domestic equities to international shares. Investment in domestic equities sits at 33% of gross assets for pension SMSFs vs 23% for accumulation SMSFs. While investment in international equities sits at 1.0% for pension and 1.2% for accumulation SMSFs.

The strong pension SMSF preference for domestic shares is likely to be influenced by the franking credits Australian companies provide. These are not generally available for international shares.

Residential v Commercial Property

Overall pension SMSFs have less interest in direct property than accumulation SMSFs. Pension SMSFs are less likely to invest in residential property than accumulation SMSFs. And 12 times less likely to borrow money to do so.

Where pension SMSFs do invest in property, they learn heavily towards commercial property. Perhaps this is another example of the pension fund's need for income. Commercial properties tend to deliver a more reliable and higher rental yield.

What future holds

Retirees do have a different investment profile to investors in accumulation phase. They need income to live off and seem to be more risk averse than pre-retirement investors. The clear differences in investment preferences of the pension SMSFs will be interesting to watch over time. Will these preferences change as a new population of SMSFs move into pension phase?

Membership sizes

There remains a big difference between the average balance of members in two member funds, with the first member having almost double the assets of the second. However, we do expect that over time, this disparity will reduce now that the super reforms have placed tighter restrictions around member contributions and balances.

Domestic Listed Securities

Direct investment by SMSFs in domestic listed securities is highly concentrated in the largest 20 domestic shares. Especially the banks with the latter making up 48% of the top 20 investment holdings

Managed funds

Some claim that SMSFs invest less in international assets compared to APRA funds. However, they often fail to make into account indirect investment by SMSFs. The figures show that SMSFs are using managed funds to get much of their international asset exposure rather than investing directly.

Exchange-Traded Funds

SMSFs mostly use ETFs to get exposure to developed market equities and as a passive investment in Australian shares. Emerging markets and Australian listed property are also relatively popular.

Direct International Shares

Technology stocks are the most popular for SMSFs investing directly in international shares, with tech stocks making up 64% of the top 20 investment holdings. More than 1 in 10 SMSFs which directly hold international shares own a stake in Apple.

Class Users

Let's now look at the accounting firms using Class to administer the SMSFs on Class While small firms – less than 25 SMSFs – are still a significant subscriber category on Class, the SMSF industry is consolidating. The higher growth rate of businesses on Class will also see many of these grow into larger firms. As a result we expect the percentage of small firms on Class to decrease over time.

A typical small SMSF practice using Class for more than one year grows on average at 15.3% per annum, compared to an industry growth rate of 4.4% (over the 5 years to September 2017).

During the interview we focused on this part of the benchmark report and looked at the accounting firms using Class and the environment they are operating in.

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SMSF Update

Pension Strategies Post 1 July 2017

SMSF Events Based Reporting

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