



Small funds now biggest sector of super industry

THE Australian Tax Office last week released revised data that shows small super funds recently became the biggest segment of the superannuation industry.

The improved data has only become available because the ATO has finished collating all the information gathered from small super fund annual returns for the 2007 tax year.

It goes without saying that this occurrence is fundamentally important to the make-up of the superannuation industry.

The growth rate in the number of DIY super funds and the increase in the amount of money invested in these funds since June 2006 is nothing short of phenomenal and has surprised many funds management experts.

The Tax Office now estimates that at June 2007 there was \$335 billion in small super funds. This is an amazing 25 per cent increase on their estimate for June 2007 published in July this year.

Also in July, Deloitte Touche Tomatsu, one of the big four accounting firms, published a report that predicted small super funds would become the largest super fund type when looking at assets under management. But Deloitte's did not expect this to happen for several more years.

Small funds now have 28 per cent of all super fund assets (the old figure was 25 per cent). By 2021, Deloitte's predict small super funds to have 37 per cent of all super assets when it expects total super assets to be nudging \$4 trillion.

The ATO says that in 2006-07 about 40,000 new small super funds were created. This is a much larger number than the longer term average (typically between 20,000 and 30,000 funds per year). In the same year, the number of small super funds with assets greater than \$1 million increased by more than 42,500.

In net terms, nearly all the growth that occurred in the number of funds in 2006-07 occurred at the larger SMSF asset segment. This is an important development and is due in part to the Better Super changes that allowed up to \$1 million in personal contributions before June 30, 2007.

Small super funds with more than \$1 million made up 12 per cent of all small super funds in 2003-04. By 2005-06 this segment had grown to 19 per cent. But 12 months later, in June 2007, funds with more than \$1 million had shot up to just below 30 per cent of all SMSFs.

It will be interesting to see if the number of large super funds continues to grow in future.

The average assets per SMSF was \$940,000 at June 30, 2007, which is almost double the June 30, 2004 figure and 40 per cent more than the 2006 figure.



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Importantly, the ATO data suggests that it has not costing SMSFs more money to run their fund over the last five years. In 2006-07 it cost about 1.4 per cent of total assets under management to administer these funds, which is the same figure as in previous years. Deloitte's predicts this will fall to about 1.25 per cent of assets in 2021 for SMSFs.

The ATO data on small fund asset allocation shows the inability of fund managers to get traction in distributing their investment funds to SMSFs. Fund managers have only 6 per cent of SMSF assets. This figure has not increased since 2004.

As the Deloitte's report noted, "the predicted growth in SMSF assets is staggering and is driven by their use as a repository for post retirement assets, primarily for members with larger benefits. It is no coincidence that some institutions are looking at how they can develop services that can effectively compete with SMSFs or indeed to service the large SMSF market."

By way of contrast, about 30 per cent of small fund assets are invested directly into listed shares and it is reasonable to assume that the majority of this is in ASX listed equities.

What about the cash holdings of small super funds? Some 27 per cent of all super fund assets (or about \$97 billion) is said to be in cash, term deposits and debt securities. Research firm, Investment Trends has estimated on average small funds keep about 14 per cent of their assets in at-call cash accounts. This suggests that the remainder (that is 13 per cent) is invested in term deposits and other debt securities.

SMSFs are the only major segment of the superannuation space that is showing any significant growth. As with previous market down-turns there is an expectation that some people with larger super fund balances will move out of their retail or corporate super arrangements and set up their own small super fund.

There are now just under 400,000 small super funds and that milestone will be passed before Christmas. Twenty per cent of small funds have one member and 70 per cent have two members.

In years gone by, between 4000 and 5000 small funds were wound up. In the 2006-07 this number fell to about 700 small funds.

Late Lodgement Prosecutions

In other news the Tax Office has also revealed it has successfully prosecuted about 50 small fund trustees for lodging their super fund returns late. Most trustees were fined about \$2000 for each year that they lodged late. One change introduced by the Better Super changes was to enable the ATO to more easily seek the imposition of fines for the late lodgment of super funds returns.

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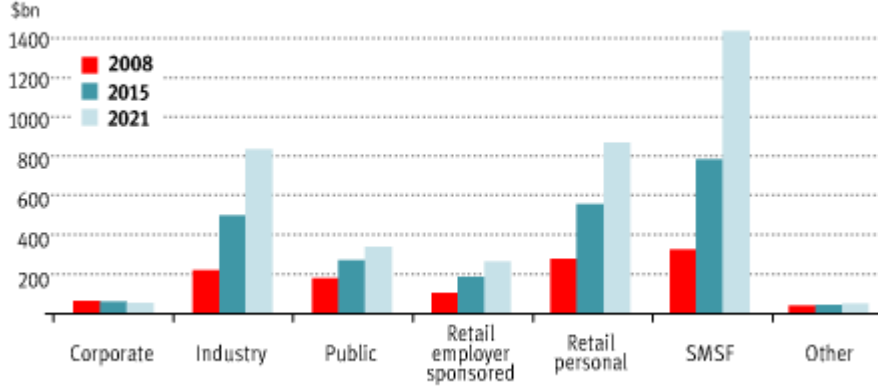


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Total assets by segment



Source: Deloitte