SMSFs

Targeting DIY super

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SMSF trustees are ideal clients for a growing number of advisers and there are special ways that planners can zero in on this group.

Matthew Walker, WLM Financial: Running the accounting and financial planning businesses together helps us cross-pollinate our services. **Photo: Andrew Quilty**

Dream clients, in most financial planners' eyes, are those who want to listen to and act on advice. They're prepared to pay for services and are engaged with their money. It usually helps if they're wealthy too and have insurance needs. Maybe they have family and friends in similar situations whom they could refer to the practice.

The best clients tend to be those seeking a long-term relationship with their adviser, who in time will become a trusted partner and counsellor. In many of these ways, people who run their own self-managed super fund will fit the description.

A study conducted this year by Core Data brandmanagement and released in February for the Self-Managed Super Fund Professionals' Association of Australia and Russell Investments, found that while fund trustees rely heavily on their own research when making decisions about their investments, professional advisers and planners play an important role for more than 40 per cent.

SMSF trustees are usually happy to pay for assistance, the survey showed. The average amount they pay for advice, compliance and accountancy is $3670 a year. One in five pays more than $5000 annually.

They also tend to have large balances in super. Six out of seven SMSF trustees surveyed has a balance of more than $250,000, with one in four holding more than $1 million in their fund. For many, the super balance represents only part of their assets.

There are potentially lucrative rewards to targeting self-managed funds. More than half of advisers surveyed in the SPAA/Russell Investments research say their SMSF clients are more profitable than other customers.

A separate study, the Investment Trends June 2010 SMSF Planner Report, found that on average advisers derive 27 per cent of their revenue from SMSF clients. These planners forecast that SMSFs would generate an average of 38 per cent of income by 2013.

The number of self-managed super funds in the market is rising rapidly, creating more opportunities for advisers. In the three months to December 2010, 5964 funds were established, bringing the total number to 439,397, with 839,510 members. That's 51,390 more people who are members of an SMSF than there were in December the year before, and 95,727 more people than two years earlier.

Of advisers surveyed in Investment Trends' research, 40 per cent said they would recommend SMSFs more, or much more, often in the 2010-11 financial year than they had before. Five per cent more were planning to recommend self-managed funds for the first time.

The market's expansion, along with anticipated regulatory changes, are encouraging businesses like McPhail HLG Financial Planning, a Melbourne-based practice, to focus more closely on SMSFs. David Graham, senior financial planner at McPhail, says about 20 per cent of their clients manage their own super and the advisers spend about a third of their time working for these people. The business would like to increase that proportion.

"The reasons we're targeting [SMSFs] is not so much just to take advantage of the growth [in the market size] but also to raise the level of professional advice available in that area," he says.

Last year, the Cooper review recommended adviser education on self-managed funds should be lifted although it stopped short of setting mandatory education levels for trustees. Graham says McPhail advisers believe they have the necessary experience, academic records and technical support.

The business has been doing some work with SMSFs for a few years but has recently started gearing up in the area. Graham is a long-time member of SPAA but less than 12 months ago he completed the association's

SMSF specialist adviser accreditation. He expects this to become the industry standard.

The advisers at McPhail only establish new self-managed super funds for clients when deemed appropriate, but the business also targets people who need help with existing funds. The practice can consult to SMSF trustees who just want compliance assistance or strategic advice. It also has a comprehensive service that includes advice on investments and other aspects of running the fund.

Matthew Walker, certified financial planner and director of WLM Financial Services, a self-licensed business based in Sydney, says the most profitable SMSF clients for advice businesses tend to be the ones who want to outsource the fund's operations and investment decisions.

WLM specialises in self-managed super. There are three certified financial planners who work in the practice, serving about 150 clients, many of whom run their own funds.

The business also has a chartered accounting division, which also has about 1500 clients, although some of these are corporate entities rather than individuals.

Unique fit

"Running the accounting and financial planning businesses together helps us cross-pollinate our services and provide a better outcome for clients," Walker says.

Chartered accountants handle fund compliance and audit issues. Financial planners advise on the investments. "It's a unique fit for financial planners and accountants because the regulatory regime cuts them in half," Walker says. "Accountants can't talk about investments and planners can't really talk about tax-related or compliance issues. That's where firms like ours are in a great position to meet the client's needs because we can work across both boundaries."

In dealing with self-managed super, WLM has found that there are several types of people attracted to running their own funds. Some want to get into the detail and like to manage the investments themselves. Another group wants control over their super but would prefer to leave the compliance to someone else.

"There are some that want to run [their own fund] from an economic point of view, that is because it's going to be cheaper to do it that way," Walker says.

The costs of administering self-managed superannuation are reducing thanks to improvements in information technology systems, Walker says. Still, he has concerns that there are advisers and accountants who are recommending that people with low balances establish their own funds.

The government has suggested that the minimum account balance for an SMSF to be cost-efficient is $200,000. Most funds comply with this rule of thumb: in the SPAA/Russell Investments research, only one in seven SMSF trustees claimed to have a balance of $250,000 or less.

Chris Benson, AMP strategic development manager – SMSF, says advisers should take responsibility for ensuring their clients are in a super structure that suits them.

"For many people, even with amounts significantly in excess of $200,000, an SMSF will not suit their particular circumstances – but in all cases the financial planner should have this discussion," he says. "The danger of not having the discussion is that their accountant may recommend an SMSF without fully explaining the alternatives."

Financial planners need to have a good knowledge of their clients' circumstances to determine what is appropriate. While the fund balance should be considered, the amount of money in super is only one factor. Some people might benefit from holding property inside super. "The main factor will often be whether clients desire the control and flexibility SMSFs provide," Benson says.

To attract clients who already have an SMSF, advice businesses will need a clear value proposition targeting these people. In most cases, they will already have an advice relationship, perhaps with an accountant who completes the fund's tax returns. To take over as the main adviser, Benson suggests financial planning practices should offer a series of support packages ranging from a full annual service provided for a yearly fee down to an "as requested" advice service charged on an hourly basis.

Financial planners should be proactive in introducing new concepts to these clients. Since SMSF trustees tend to be engaged with their super, most will have high expectations of their advisers on investment strategies and compliance issues.

Turf war

Holding information sessions for clients interested in SMSFs may help attract new clients. “Trustees have a thirst for information and these sessions can work well,” Benson says. And while more advisers are targeting SMSFs, there is still surprisingly little competition between financial planners for their business, he says. Where it exists, competition is more commonly a turf war between the client’s accountant and their financial planner as to who should assist them with the super fund.

A better way of working, and to avoid such conflicts, planners can partner with accountants who offer basic SMSF services, such as tax returns, and work with them to provide the advice on issues such as strategy, investments, insurance and estate planning.

Mark Ballantyne, general manager of Commonwealth Bank-owned dealer group Financial Wisdom, says most of the self-managed super fund advisers who work in the group source their clients through relationships with accountants.

There are 12 businesses in Financial Wisdom’s 190-practice network that concentrate on self-managed superannuation funds and there is strong interest from other planners in getting more involved in the area. In September, the dealer held a peer group meeting for advisers who specialise in SMSFs, which 12 planners attended. Another meeting is earmarked for May and Ballantyne expects a larger number to participate.

Where the accountant has provided the lead for the adviser, he says it’s best for advisers to position themselves as service providers to the accounting practice. “It’s always important to be clear with the accountant that they own the client, and how you as a service provider to the business manage that relationship,” Ballantyne says.

Planners can make things easy for accountants by using systems that integrate with the accountant’s system. BGL is one of the most common administration systems that accountants use and some investment platforms allow data feeds to go into that.

Ballantyne says anything that makes life easier for accountants will be helpful for the relationship.

Gold Coast-based practice Strategic Planning Partners (SPP), licensed by ipac Securities, has developed a comprehensive program for approaching and working with accountants on self-managed superannuation.

Nick Brinkworth, general manager of the practice, and ipac’s general manager for Queensland, says the business has been developing its Professional Partnerships Program for several years. It has now gained traction in the local area and there are plans to “industrialise” the program and deploy it across the wider ipac network.

“The traditional approach where financial planners line up at the accountant’s door and talk to the accountant about how they can add value and why they should refer their clients, at SPP we didn’t just want to be in the queue,” he says. “We wanted to go in with something a little bit different and something that ultimately made the accountants look good in front of their client as opposed to the accountant just referring opportunities to their local financial planner.”

The idea of the program is to deliver services to accountants that broaden the relationships they have with their clients. Brinkworth says in SPP’s experience, suburban accountants typically have to work so hard on the day-to-day compliance and administration of SMSFs that it can be difficult for them to look beyond that to deliver ongoing value for these clients.

“What we’ve tried to do is say, ‘You do what you’re good at, which is delivering administration and compliance services and having that sort of relationship with your clients, and we’ll help you have a more forward-looking relationship in terms of providing financial planning services’.”

The business runs a series of quarterly professional development workshops for accountants and their staff. These include technical sessions on topics such as non-recourse loans and estate planning and soft skills sessions on communicating with clients, marketing strategies and how people make financial decisions. The workshop in March attracted about 50 accountants from the Gold Coast area.

Planning workshops

The second part of the program involves a quarterly e-newsletter, which the planners send to the accountants’ clients. The newsletters are branded with the accountants’ details and sent to their clients direct from SPP’s system. They might include technical information, market updates and video content. To the client, it looks like the newsletter comes from the accountant and there is a direct response system that goes back to the accountant to generate additional referrals for them.

So far, 10 accounting businesses have signed up to use this service and about 1500 clients a quarter receive the e-newsletters.

The financial planners, in partnership with the accountants, also run retirement planning workshops and three-hour trustee training sessions to educate trustees on the rights and responsibilities that go with their role as trustee. These events are held every quarter.

If the accountants are happy to partner with SPP, the planners go into the accounting business and conduct a basic compliance and advice audit on a selection of the accountant’s clients’ self-managed super funds.

“We will sit down with them using some simple checklists to identify a few compliance issues that they have to work on – it might be that the investment strategy is missing, or it could be out of date trust deeds for example – but it allows us to go back to the accountant and provide a report on advice opportunities,” Brinkworth says.

The planners present a report to the accountants and leave it with them to decide what to do with the information. Typically, the accountant will arrange a meeting with the clients and the planners to talk about financial advice opportunities.

“Once they’re committed to that process, they’re usually comfortable sending through referrals through to us to do a similar thing for most of their self-managed super fund clients.”

Formal relationships are in place with five local accounting businesses, although the business also works informally with other accountants who work nearby.

To avoid arguments about who owns the client, the agreements include the option for SPP to acquire the accountant’s share of the revenue back from them when the value of the income stream hits a certain threshold. None of the existing relationships have hit the level yet. “It’s a way for the accountant to build a little bit of capital value in the referral,” Brinkworth says.

Backing up the program, SPP has a team of eight salaried advisers, of whom five are SPAA accredited. There are two corporate authorised representatives, one of which is a sole operator and the other is a separate business with 12 advisers specialising in wealth accumulation.

If the accountants decide they don’t want to administer SMSFs any more, SPP can arrange to outsource that function to a professional administration group.

“It’s a way of slowly engaging with the accountants, building credibility and trust, demonstrating the immediate value we can add in some real client scenarios and down the track, if it’s appropriate, assuming responsibility for those clients if they don’t want to be in that business any more,” Brinkworth says.

The administrator also has an offer to acquire the administration rights for the SMSF from the accountant, which is the exit strategy part of the program.

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