The SMSF Academy Podcast - Transcript

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Aaron Dunn: You're listening to the SMSF Academy Podcast. This is episode 25.

Intro: Welcome to the SMSF Academy Podcast. The show designed to help professionals stay ahead of the curve. Now, here's your host. The man that's in the know and shows you how SMSF is done right, Aaron Dunn.

Aaron Dunn: Hi everyone and welcome to this week's episode of the SMSF Academy Podcast.

Christmas is fast approaching, but many of us would still have our foot firmly to the floor, working through many of the super annulation reforms.

Today, we're going to be talking about the recent release of the September 2017 SMSF Benchmark Report by Class, which provides us with some key insights into each quarter a specific industry feature, benchmark data around the SMSF members and investment insights on how SMSFs invests across more than 145,000 funds that are currently administered through the Class Super software.

Today, I'm joined by Kevin Bungard, CEO of Class Limited. Welcome Kevin and thank you for joining me again.

Kevin Bungard: It's a pleasure. Thank you, Aaron, for having us on.

Aaron Dunn: No worries.

Today, we're going to be discussing whether the super reforms are set to close the gender gap within SMSF.

Can I ask, Kevin, this September 2017 report really puts the spotlight on the various gender gap issues, in particular where we think about the transfer balance cap that we've seen introduced from the first of July 2017. First of all, can you maybe just elaborate on some of the findings and, I guess, what the focus was in this quarterly report?

Kevin Bungard: We started, I guess, off the back of most of the impact of the transfer balance cap. We had said in an earlier report that, we just made an aside about the fact that we thought you would see a rebalancing of funds and just mentioned it. Obviously, there is an imbalance there in impact, but about 29% of the two-member funds that are impacted by the $1.6 million cap, if they'd actually evened up the balances they would actually fall, both members would fall below the $1.6 million. It makes sense that you're going to see people going forward looking to where they can, I guess, as they build the balances in the fund, that they will build them. I think you'll see people using contribution splitting and looking to even balances out over time, but I think you'll also see the advisors working with the investors about where if there are strategies where they can rebalance some of those, to make sure that even if they are below the $1.6m now, that they even them out and that going forward, they're looking at having the members more evenly carry those assets in the self-managed super fund.

Kevin Bungard: Like I said, we looked at that. It made sense for them look at gender as part of that. It's obviously an important aspect to the super annulation industry and the way it's going and just in general in terms of the quality. I think it made sense to have a look at that. We found some interesting things when we started to look at that.

Aaron Dunn: Okay.

I find it quite fascinating that there's around 29% there of people that potentially had the opportunity to look at a redistribution because of the transfer balance cap. You touched on as well there that there's a range of strategies all being employed and those were potentially employed as we led up to 30 June. They may have been the contribution splitting; there may be some recontribution strategies. There could even now be, from a strategy point of view, the ability to maybe look at the investment strategy profiles of specific members to get that equality.

What those reports or things that you've been looking at have been around better distribution amongst the particular members - did this quarter suggest anything further or off the back of some of those changes, or has it just been the fact that we've seen… it's the first time that we've now really started to highlight and see the fact there is still advice opportunities that sit in there for practitioners?

Kevin Bungard: Yeah. We think, as you rightly say, that there's probably a number of these activities that occurred leading up to 30 June this year anyway. We won't necessarily see those reflected in the data yet. We'll obviously keep an eye on that over the next year or so as accounts are brought up to date for the FY17 year, that as the accounts are more brought up to date, we'll probably see some of that activity. We won't necessarily see that across the board. Some funds will already be up to date, but not all of them. I guess one of the topics in the industry at the moment is about how up to date are funds, how up to date can they be. There are various challenges to getting funds completely up to date, but I think certainly you'll start to see some of that.

You would know that ... You can't just go into a fund and rebalance it. You've got ... It's quite complicated moving money around in the super system. Getting money in and out is hard. The strategies to rebalance are still quite complicated. I think you're right. There's certainly an opportunity there for advisors who are working in this space to work with those clients who are trying to achieve those ends.

I guess the other thing we looked then was what's some of the implications of that. If at the moment, I think generally acknowledge that within self-managed super funds you tend to have one more active member who is really driving it. Obviously, they typically would be the one with the higher balance. I think we were raising some questions when we were looking at this to say, "What happens as you start to even the balances out?"

We know from other research done within the superannuation market that the higher balances people have, the more engaged they get with their super. If, as a group, the females are less engaged because they weren't the ones with the higher balances, if we start to even the balances out, does that have any implications in terms of the way that the self-managed super funds are being run and how they make decisions about investments. We decided to have a look at - do we see any difference where a fund had females with, I guess, more engagement, do we see a difference in how they're making investment decisions?

The easiest way for us to do that was to look at what single member SMFs are doing and how they invest. When we started to look at that, we did actually see that when you look at the female members as a cohort, they seem to make slightly different decisions in terms of investments than the males do, certainly in these single member funds.

Does that have implications going forward for the broader SMSF market?

Aaron Dunn: In terms of some of the findings in the report where you were looking at this single member cluster of individuals, you did start to see some very distinct differences around those investment strategy profiles. Do you want to maybe elaborate a little bit on that and then where some of the balances kicked over? I think, from an age context, there was a comment, one of the breakout boxes that females have a higher average balance in a single member fund up to the age of 70, after then, which males take the lead. What were some of the key take-outs around those topics?

Kevin Bungard: Yeah. I think the first point is just the fact that the females in the single member funds up until that 70-age cohort actually had higher balances was a real surprise for us because obviously there's a lot spoken about in terms of the imbalance in terms of wages and salaries and obviously that feeds through into the super. I think it's generally acknowledged that there's that imbalance in the industry as a whole.

To see that single member funds, the females actually had a higher balance up until that age group, at least, was quite interesting. I think it then raised the question ... With some of these things we can only ask the question. We don't necessarily have the answer. What is it about that 70-age bracket that it flips around again. We don't know whether that's because as a cohort they had less opportunity to save earlier in their careers, and therefore it's the younger females who've had more opportunity where they are taking more direct responsibility for their super annulation and self-managed super fund, have had more opportunity to build a bigger balance. Maybe they're making more of a commitment to saving in those younger age groups as well, but sometimes we can't really get to what's caused these things, but it does have some interesting implications.

When we looked at the types of assets that the females were investing in versus the (males), and just looking at asset classes, there was more, in general terms, more of a conservative focus from the female investor, more likely to be investing in debt securities, managed funds, listed trusts. Whereas, when we looked at the males, they're more likely to be using things like limited recourse borrowing, more likely to be overseas investors, more likely to be using non-residential real property and a big shift to unlisted shares, which is interesting in terms of potentially obviously buying into their own businesses that they might be involved in through whatever mechanism.

I think it's interesting to see. There's maybe a different way of investing in these different groups.

Aaron Dunn: I think that, we wouldn't be able to take that another step further, but if you look at some of the more traditional ways in which females have invested there, it would be fascinating to see maybe that they've gone and sought specific advice, where if we look at the SMSF sector where we do traditionally have a more dominant trustee as a feature, sure there's a joint responsibility in ownership and so forth, but in the majority of cases, we have that dominant trustee, it'd be interesting to see whether that function of the way in which the investments are happening are a function of maybe the females seeking that investment strategy advice because they may not have had the financial literacy around that understanding. They've been more prepared to engage with an advisor, maybe looking at those more traditional based investments where you may have, like… the male community there may be more inclined to look at a more diverse distribution of investments,

like you said, LRBAs and unlisted shares and so forth where they're not maybe as reliant upon that investment strategy advice or they may have actually gone and they may have been having discussions with an accountant, maybe rather than the financial planner for example.

We wouldn't obviously see that information, but it would be quite interesting to see how that dynamic may look as a result of the type of things that they're actually investing in.

Kevin Bungard: Yeah. I think that is interesting. Some of those questions we can't answer with the data that we have, but we do know, for example, that there are other industry reports. I think that's where the value of having information like the benchmark report out there, is you can take this information and then compare that.

Aaron Dunn: Overlay it.

Kevin Bungard: If you compare ... One of their finds was that females tended to be more conservative. I don't remember whether they had in there that they were more likely to seek financial advice, but that could also be a finding. Certainly, there would be others who would have that data whereas we wouldn't necessarily have that data.

I think as an industry, if we're able to, with various groups looking at the data that they have, and we can share this information as an industry, then we can start to feel or form a more complete picture of maybe what's going on.

Aaron Dunn: What's going on. Yeah, I think that's a very relevant comment because when you look at the amount of data that an organisation like Class now has with ... I don't know how many transactions would go through the Class super software over a year. I presume it's in the many millions, but that big data analysis now gives us better information that we've ever had (before). For a long time, we've really only had the ATOs Annual Statistical Summary to really give us any insight as to what's happening in the industry, where if we now look at the, and I know we had the conversation earlier before we jumped online about some of the T bar reporting and so forth, but across the data that yourself (Class) and BGL and whatever have, you guys are in a far better position from an industry perspective to give us better context around what the industry should be doing going forward. I certainly applaud you for making these things available.

Do you see that as being a critical part, not only to obviously benefit what Class does, but more broadly the SMSF industry?

Kevin Bungard: It's one of the reasons we did the benchmark report, because there has been historically not a lot of clear data. You can always survey people and get people's opinions and intentions and things like that, but it's always good to have some hard numbers and you're having that big data available to do that analysis over 25% of the industry is a pretty significant capability.

We take the opportunity to ask your listeners if there is anything where they'd like to see us do some sort of analysis ... As you said in the introduction, we look each quarter to do something that's topical that's of interest to the market. If there are suggestions around, I'd like to see more on this or more on that, and we're able to do that, we're always looking for what things we should drill down on next because.

Aaron Dunn: Angles to really take on board.

Kevin Bungard: Yeah.

Aaron Dunn: Yep. Absolutely.

Alright. The last thing I really just would be interested just to get your view on ... Obviously you're out and about talking to clients, talking across the industry. We're about to, we're approaching the first six months of implementation of the (super) reforms. What's you're read on it in terms of how people, practitioners, are generally coping across implementation?

Kevin Bungard: I think coping is the right word. I think they're just coping. I think when the reforms first came out, I think many people commented on the scale of those changes and then obviously people commented on the lack of detail. That took many months for it to be fleshed out. We're still doing that. We mentioned the TBAR stuff. That's still being, the finer details are still coming out. It's been very hard for the industry to really get ... I don't think anybody has their head around everything that they need to be doing, certainly from a practical point of view.

What we see is that the industry is really just then coping with, "What's the next thing I need to do?", because it's been the only way they can operate. We were only just getting the details in time. We're only just getting the supporting infrastructures and things from ATO just in time. I think everybody is, as a practitioner, is trying to keep their clients up to date, educate the clients as much as they can, but really deal with what's in front of them. They've been doing what they have to do. Get those minutes done leading up to 30 June. Start working on the CGT relief, it's the biggest one we see people working on at the moment.

There's still a number of things ahead and I know a number of practices are putting off the CGT (relief) stuff and waiting until closer to lodgments to really finalise it because they want to be able to do that as cleanly and effectively as they can, but I think yeah, there's a lot still for people to deal with and I think leading up to the 30 June date and then the 1 July (2018) TBAR date, there's still a lot more for people to get their heads around. I think they still need education. They still need more information. As I said, particularly things like TBAR, where it's still moving, we're still waiting for finer detail. We're going to be on this journey for a little bit longer yet.

Aaron Dunn: Absolutely.

I think one of the things that we're looking at is education is still probably the biggest challenge like you said, at the moment. For those that are listening, we are running our SMSF Online master class. That first session, which will be on CGT relief, is on the 22nd of November. If it's something that you'd be wanting to do, you can jump online. If you're a Class user, you can get in contact with us. We will have a coupon code for you and you can access that session for $297, but I think this is the real challenge. You made the comment about the CGT relief. I think people are waiting to some extent because they're still trying to absorb all the important information we've seen, differences in the actuaries around certificates. We've got the documentation we need. Just understanding which method and so forth, there's just an enormous of information that needs to be absorbed at this stage.

I think the work that you're doing at Class to help people navigate as best as they can through it, is certainly, should be commended. Thank you for your time today Kevin. Is there anything else you'd like to mention in closing?

Kevin Bungard: Just, I think on that TBAR, there's still a lot of education required with the trustees because we are now in a state where people are actively having to keep track of what they're doing because the reporting requirements are going to kick in. When we get to that 1 July (2018) date, people need to have known what happened during this financial year. It is important that the trustees understand their responsibility there and that the accountants are doing that piece as well.

Aaron Dunn: Very good.

I'll hopefully be interviewing Kasey McFarlane from the ATO over the next couple of weeks and we'll be able to fire a few questions at her and hopefully get a few more answers.

Thank you again, Kevin, for your time today. It is always greatly appreciated. You're a busy man, but thank you for taking the time out to talk about the September 2017 benchmark report. I look forward to having a chat to you again when we see the December report as well. Thank you. Much appreciated from me again.

Kevin Bungard: It's a pleasure. Thank you very much Aaron.

Aaron Dunn: No worries.

Thank you to everyone for joining us today, the SMSF Academy Podcast. If you've got any further questions, please feel free to reach out to us at info@thesmsfacademy.com.au or you can connect with us via social media.

Finally, Kevin, where can they access the benchmark reports?

Kevin Bungard: They can go to the www.class.com.au website. There's a tab there that says, 'Insights and Ideas'. If they click on that and follow the bouncing ball, they'll be able to download both this report and all the earlier reports as well.

Aaron Dunn: Excellent. Thank you.

Thanks for your time folks. I wish you a great rest of the day and I look forward to chatting with you at next week's SMSF Academy Podcast. Bye for now.

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