The SMSF Academy Podcast - Transcript

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Opening message: 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 is in the know and shows you how SMSF is done right, Aaron Dunn.

Aaron Dunn: Hi there everyone and welcome to the SMSF Academy podcast. My name is Aaron Dunn and today we are going to be looking at the topic on the insights into the recent class SMSF Benchmark Report, which was released for the June of 2017 quarter.

Now as we move into implementation across many of the superannuation measures from the 1st of July 2017, there are many challenges that continue to be presented for professionals working with their SMSF clients. And the recent release by Class of their June 2017 Benchmark Report, highlights some of these key issues and opportunities that are being presented with the superannuation reforms.

So today I am joined by Kevin Bungard, the CEO of Class Limited who will be discussing with me how accountants and advisors need to navigate their way through these measures and not sink under the second wave of super reforms, which funnily enough, was the theme for that Benchmark Report. Kevin, welcome and thanks for joining me today on this podcast.

Kevin Bungard: Thanks Aaron, it's a pleasure.

Aaron Dunn: All right, so if we can maybe delve into to this June 2017 report; it talks about this spotlight on the accountants, what they need to do and how they need to act right now. So, can you explain to our audience, a little bit about why this is so important from the data that you are seeing within Class?

Kevin Bungard: Yeah sure, as you mentioned in the intro we are really looking at the second wave of super reform. I think if people didn't enjoy that run up to 1 July this year, with all of the work that they had to do with understanding the changes, getting their head around the regulations when they came out, you know, all of that in a lot of cases, you know, apart from helping people get contributions in, a lot of it was about getting to the point where we had minuted what the actions were and as you said, we are now in this phase where this year, we have got to implement those commutations, the CGT relief later in the year as we get closer to lodgement and so forth, and do tax returns.

And then, before pretty much anybody gets to draw a breath, on 1 July 2018, we are going to be doing this TBAR reporting, real time reporting, events-based eporting, it's got lots of names and the data is saying, you need to start worrying about that TBAR now.

Aaron Dunn: Yep and I think, that's a fair comment you made early on there that most professionals I think, scratched and scraped their way through to 30 June, what did we need to get done and by what stage and that's really where the focus was and this second wave, as you have rightly said, has now come about because they are not only looking at, well, we've got to do our ordinary requirements here but I'm also finding that a lot of people are now going back and going, actually, I need to know this in depth, I need to understand how it impacts my client strategies. What I need to understand going forward, so that I can engage again with my clients, rather than going, I just need to get my commutation done before the 30

June, I need to get my salary sacrifice adjusted before 30 June and we were literally holding on to our coat tails in terms of getting the stuff done before 30 June.

So I think it would be a fair comment there, absolutely, that we are finding more and more people sort of sticking their head up and trying to see what is going on but they are still going to go through an enormous 12 months and then, yes, you're right, we then come into this TBAR reporting or events-based reporting that will kick off, in an SMSF sense from the 1st of July 2018.

Kevin Bungard: Yeah totally. And I think a lot of people, because of the scale of the reforms, they really did have to sort of focus on what was immediately in front of them. So, I think people are still catching up on what it means and when we looked at the Events Based Reporting and what TBAR was looking at, and I'm sure you and most of the listeners are aware, there is still a bit of debate about what the frequency of this reporting is going to be over time.

Aaron Dunn: Yep.

Kevin Bungard: But we really wanted to look at, how likely is it that this is going to be, what scale is this recording going to need to have? And I think you are absolutely right, whenever there is changes in regulation, advisors are then very quick to look at, well what's the strategies that my clients need to be adopting? How do they cope with the impacts of these changes and the interplay between those strategies and the TBAR reporting is going to be significant? I mean I might dive into that if you like?

Aaron Dunn: Yeah, yeah go for it, absolutely, yep.

Kevin Bungard: I think the original thought was well, you are going to have people who set up a pension and at some point, someone will drop off the perch and then you know, in theory for a lot of funds, you might just do it for a lot of members, you are going to end up with two reportable events.

What we started to do was say, well let's have a look at that in practise and the first thing that strikes you is that the average number of pensions is actually two, so there is already an interplay there in terms of people having multiple pensions for various reasons and lots of different strategies for why they would have that. And then when we looked at their number of establishments, the number of commutations, about 9% of members established pensions in 2016, about 12% did commutations, that's a little higher than you would expect, if it was just people doing a one off. We think some of that is people having strategies where they are effectively recycling pensions where they are kind of picking up contributions that have come through the year, commute a pension, recommence a new one and so forth.

Aaron Dunn: Mm-hmm (affirmative).

Kevin Bungard: But I think the real shock for us was when we looked at, the strategy that we kind of called the TBA ‘claw back’ Strategy, the transition balance claw back, where we basically looked at this idea of if people have drawn down their minimum, once they have done that, the recommendation seems to be generally across the industry from advisors, that you should be looking to take whatever else you take in the year, as a lump sum amount commuted and then take it as a lump sum rather than continue to take it as conventional pension draw down.

Aaron Dunn: Yeah, correct. I was going to say, yeah it's, so I guess for our audience, who may not have understood this is, there is really a priority of cashing in terms of taking that money down, so where an individual may have already maxed out their $1.6m or the combination of a husband and wife situation is $1.6m as an estate planning strategy, we are now looking at contemplating a commutation here to strike that debit so that you start to erode that members transfer balance cap again that enables, in the event of the death of one of the members, their potential scope to add back in the deceased member's benefit into the surviving members benefit.

So, I agree that, that strategy would be employed and employed quite substantially, whilst the government hasn't really focused on saying that there is not a lot of people that, broadly speaking, were impacted by the transfer balance cap introduction. I think, once you start to bring in a husband and wife scenario into the future, well I think quite clearly, there is going to be a far greater pool of individuals who will be impacted by that. So, absolutely I agree 100% that, that will be a measure that will be employed and employed quite religiously from day one within the SMSF sector.

Kevin Bungard: Yeah as you mentioned, that, the way these various strategies interplay, so that estate planning piece in terms of, if the average SMSF balance is about $1.6m and you're trying to, even if you have got that evenly split between the couple that are in the fund, later down the track, it may be quite important to retain that space on the balance cap.

Aaron Dunn: Yeah, correct.

Kevin Bungard: When we looked at the pensions that were drawing more of the minimum, over 50% of members are drawing more than their minimum, so now about 40% of those are drawing more than about $5,000 over their minimum and we've spoken to some of the advisors and that seems to be a benchmark in terms of where it's maybe worth taking advantage of that. Obviously different people are going to have a different view on whether that is worth doing if you just draw one or two thousand dollars over, others might say, oh no look don't bother unless you take a substantial amount over. But I think if, all things being equal, the members are going to want to do this strategy because they are never quite going to know where they might, in the future, need that extra space on the cap, so it's worth creating that if you can.

So, 40% of members looking to then employ this strategy, we then looked at the number of pension payments that people were taking and it's interesting that despite the account based pension, meaning that you can take as many drawdowns as you like during the year, the average is still 12, so people are still pretty much taking monthly payments.

Aaron Dunn: Yep.

Kevin Bungard: Yep and some people take one for the year, others take many more but on average, it's 12. And what that means is that when we look at the amount that people are drawing over the minimum, you're going to be in a situation where an average four of those withdrawals are going to be over the minimum. So that's a lot of reporting when you consider that is effecting 40% or 50% of pension members.

Aaron Dunn: Yeah and this is the bit that I found really interesting in the report and how it somewhat contradicts some of the communication that the ATO has been talking about because I guess they are trying to play down the potential impact of events based reporting for SMSFs and some of their commentary has been, well there may even be the SMSF that will only ever have to report the one reporting event in the life of that particular member. So we have a pre-existing pension at the 30th of June, it reports that pension to the ATO and really, that account will die when the member is no longer here as well and then against that backdrop, we are seeing this sort of information that you are sharing into the market place, it's going, well hang on… SMSFs that are more strategically advised, could be looking at, not just one at the start, but they are running, two pensions, three pensions, four pensions potentially per member so you are now up to anywhere between two, four, six, eight pensions being reported.

And then, in addition to that, we are then seeing potentially on top of the initial reporting, we are seeing three, four, maybe five pension reporting events year because we are going to see commutations as well. So, I find it quite fascinating, I'd love to know where the ATO sort of got their view from, based upon the information, when we think about the statistical summary, it doesn't really give any insights into the timing of when benefits are paid and so forth.

So, I think this is going to be a real sleeper for the SMSF industry to really get their systems and processes up to speed to be able to handle this volume. Would you say that, that's a fair assessment of where we are at?

Kevin Bungard: Yeah look absolutely. I think the ATO in terms of the data that they are looking at, or even the government in, I guess in setting this policy, I think there is always that challenge where they don't necessarily think forward to what sort of strategies will come out of the consequences of this legislation and regulation and therefore they wait to see what happens.

And then it's the fact that it's not the base sort of data that is the problem, in terms of the number of establishments and commutations historically, that's not where the volume is going to come from, it's going to come from the consequences of strategies that people might mentioned and you just touched on a number of them, there is lots of speakers around talking about the range of strategies and I'm sure more will develop over coming years and so whatever those strategies are, in that feeding back in, what it means as a professional, you're going to have to be on top of the consequences of that.

And I think this is the reason why we are trying to draw attention it at the moment is because, come 1 July (2018), as I said, you are barely going to have taken a breath from getting your tax lodgements in for last year, and you're going to be really having to be on top of what happened in the current financial year in FY '18, because if you have got members who are expecting you to help them execute this strategy, you are going to have to report that, straight away. So, you are really going to have to be on top of what happened, you can't wait the normal sort of, you know, another sort of eight or nine months before you talk to them about tax lodgement, you are going to have to be on top of it throughout this year and really understand if your clients are adopting those strategies.

And I think, particularly where, the member may be working with the accountant and a separate advisor and the two really aren't talking, there is a recipe here for some upset members if people miss the opportunity to claw back some of their cap, because they haven't done the paperwork in a timely fashion.

Aaron Dunn: Yeah and I think that's a really important point there in so far that without things being done correctly, the industry, the ability to use hindsight, I use the word hindsight in respect to how transactions have been dealt with is certainly changing.

So how the fund can enable a commutation to occur, within the prescribed time frames and being documented appropriately so that it is a valid commutation because we've also got some guidance from the ATO in the lead up to 30 June as to what would be a valid commutation there as well.

So I think there are plenty of ways in which practises are going to have to change or look at adopting a new approach to not only dealing with the payment of benefits in a strategic sense, but how that information is going to be reported, because not only do we have to look at what the pre-existing income streams were at 30 June and make sure we have got all that ready to report from the 1st of July, but we need to be banking all the transactions that are occurring between 1 July '17 right through to the time, in which we have the ability to start to report information to the ATO. So, for many administrators and accountants and so forth, already we would be having a range of debits and credits that we would have to be keeping track of to ensure that we are reporting that information into the future as well.

So, if I can now maybe move onto this bit around the technology, because initially Kevin, we are only seeing a limited number of options here to be able to generate TBAR reports to the ATO, so we look at the bulk data exchange, we look at paper reporting, the paper forms and the online forms. How do you initially see many of your Class users looking to get this information to the ATO?

Kevin Bungard: Right at the moment, we think the initial round, people are going to go for that bulk data exchange. That's the mechanism that I think will be the preferred mechanism, certainly nobody is going to want to be doing forms unless they are a DIY administrator. I guess we are still talking to the ATO about what the frequency of this reporting is going to be. I think the industry is hopeful in the discussions with the ATO that initially, you're going to have that first round of reporting at 1 July where you provide the opening balances for those transfer balance accounts.

Aaron Dunn: Yep.

Kevin Bungard: And then, post that, I think at this stage, everyone is hopeful that we will have quarterly reporting initially but the ATO is certainly saying that they eventually want to move to monthly reporting.

Aaron Dunn: Yeah.

Kevin Bungard: So, I think you will see that frequency evolve over time and I think you will see the technology evolve over time. I think the bulk data exchange mechanism in particular is just a kind of a stop gap and I think eventually, we will be moving to and SBR-based solution, but it is just a matter of whether the system, when those systems can basically be ready to do that. So, there is a lot of discussion still ongoing with the ATO and I guess in a situation where, and you kind of alluded to this a bit when you were talking about this coming in SMSF in 1 July, the APRA funds are actually starting in October with this reporting.

I think it's really just a matter of when the systems can line up, we will see this evolve. So eventually you will have the technology being able to report these events at whatever frequency they need to be reported, in a fairly seamless way.

Initially though, it's going to be a little bit clunky because we are going to have to generate these files, which you are going to have to download and then you are going to have to upload them to the bulk data exchange, so it's a little bit clunky initially.

Aaron Dunn: Yep.

Kevin Bungard: And I guess the ATO has given people options outside of that, if they don't want to use those bulk reporting options. But again, I think you will see just very small administrators or the DIY administrators who would use those other alternatives. Most are going to want to use technology to drive this. It's going to be really important though, to have that communication with the trustees to understand where they are up to. As you said, you are kind of losing some of that hindsight that you might have been able to use previously and that's going to mean talking to your clients much more during the financial year and really understanding where they're at. But eventually I think, if you are not using technology, if you are administering any serious number of self-managed super funds, it's going to be very difficult to stay on top of this reporting, particularly as it moves to that sort of monthly frequency as the ATO has indicated.

Aaron Dunn: Yep, so you envisage I guess, in terms of the future, around TBAR reporting that this will more closely integrate, I guess, with the pension commencement or the commutation process where that information is created and set up and managed through the Class software that we will get a far more seamless approach through, as part of the end process of the implementation of that particular event would be that we would then be looking at an SBR to then hopefully get that information through to the ATO is a more timely fashion.

Kevin Bungard: Correct, so we will certainty build it into the process. You mentioned obviously the establishment is a very clear event. One of the things we are going to be doing is effectively merging the pension withdrawal and commutation process, so we want to try and make that as seamless as possible to kind of say, okay, taken this amount out, but now I am going to start doing commutations, so that's obviously a bit of a challenge in that a commutation is a slightly more heavyweight process than a pension payment. I think you mentioned earlier about what does it take to ensure you are actually doing the commutation correctly?

So, it will be important that we make that as seamless as possible for the administrators. Otherwise, you're going to get this tension between the members saying they want to employ the strategy and the administrators wanting to avoid it because of the cost of doing it. So, we need to make that as seamless as possible.

Aaron Dunn: Yep, and we've been doing a little bit of work around that ourselves. So, I guess, the last thing I really just wanted to ask you was is this is your view, the first real legislative catalyst that has come along that is a push for cloud based technology? We've seen over the past four, five, six, seven years now I guess this increasing adoption around cloud based technology within the SMSF sector, but is this events-based reporting really the first catalyst for the shift that is required for those that haven't and those that are, to really take the next steps in terms of integrating into their practice, to deal with the ongoing administration and compliance? Would you say that, that would be a fair view? That this is really, this first legislative reason where individual or practices are going to need the cloud based technology to really operate in a far more structured approach, going forward?

Kevin Bungard: Yeah, absolutely I think it is. You are seeing with the regulations here, that the ATO is bringing out, that I think their effectively saying, this is complex legislation, this is going to be difficult for us to keep track of as a regulator, maybe having learned from some of the things in the past where, when these things are this complicated, that if they don't stay on top of it, it's going to be a real problem.

And I think they have taken the view that the technology is out there so you should use it. I guess in an era where everybody is talking about FinTech and RegTech that the ATO is I guess taking a view of, in order for us to do our job effectively, we expect you to either, be really on top and it's nice that they have given people those manual options so they can kind of, if they are really wanting to do DIY admin they still can, but for the vast majority, it's really, it is kind of pushing you to the point to say well, if you are not serious about this in terms of technology, if you don't have the right tools, it's going to be very difficult for you to meet your oblations.

And I think that is a shift by the ATO and I wouldn't be surprised if we keep seeing them go down that path. They have been talking for a number of years about wanting to have better integration with systems and leverage those for the work that they need to do. I think this is just the start of a pattern that you're going to see.

Aaron Dunn: I couldn't agree more because I think the ATO have really pushed this, the self-managed concept is, but a term, because this whole concept of can you do it yourself is diminishing as the years go on and even the language that we see from the ATO is about seeking professional help and advice and this is extending all the way through to the fact that we need the right tools in place now to be able to work and provide the appropriate services into the SMSF trustee space.

So, for those that are looking to dabble and not really provide a core focus within their business around this, are certainly going to struggle into the future, let alone trying to keep up to speed with the ongoing change and reform and I guess regulation in this sector is probably only going to increase rather than decrease. So, the fintech and regtech issues that you mentioned before, are certainly going to be important to make sure that individuals can stay on top of this increase in regulation, but they are going to need to ensure that they can get stuff done on a timely basis and the cloud technology is certainly going to be able to do so.

So, I guess Kevin, in terms of how people can access the SMSF Benchmark Report and maybe share a little bit more about when that is released each quarter, and if they want to find out a little bit more about Class as well, if you can provide some information around that, that would be much appreciated.

Kevin Bungard: You can go to http://www.class.com.au and right on the front page there, just under where we have got a headline that says, grow your practise, just under that, there is a link to register for the Class SMSF Benchmark Report and if you click on that link, you can then select from one to six of the available reports and there will be another one out shortly. Basically, we do them each quarter, we try to pick something topical, in the past we have done things like usage of ETFs and usage of platforms and so forth. So, we try to get those out within the month or so after the end of the quarter, so four to six weeks after the end of the quarter. So, there should be another one out shortly.

Aaron Dunn: Very good and hopefully we get the opportunity to have a regular chat about that, because I think our listeners certainly will get a lot of value out of your insights and

what Class can provide from the growing level of data that you have within your software. So, thank you for joining me today Kevin, much appreciated. I know you are a busy man, running around, so I very much appreciate your time and sharing the insights that were made available with the June 2017 SMSF Benchmark Report so thank you, much appreciated both from myself and the audience within the SMSF Academy, so thank you.

Kevin Bungard: Thank you Aaron, it's important to talk about these things, so you're doing a great job, thank you.

Aaron Dunn: Thank you. So that's it today folks, thank you once again for joining me in the SMSF Academy podcast, they are designed to help you stay ahead of the curve. If you have got any other questions that you would like to ask, you can reach out to me at info@thesmsfacademy.com.au or get in contact with us through many of our social media channels. I look forward to you joining me for our next podcast next week, other than that, have a great rest of the day and I will speak with you soon. Bye now.

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