THE PANEL

Matt Johnson
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Brad Fox
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Andrew Meakin
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Wealthtrac roundtable

Platform provider Wealthtrac recently hosted a roundtable to coincide with the launch of its SMSF administration offering. A panel of industry experts discussed some of the key issues facing SMSF practitioners today

MATT JOHNSON: There's an upward momentum in self-managed super funds and in the industry. We see at the moment there being three main players in super: retail, industry funds and self-managed funds.

The problem I see in SMSFs is that they're probably the most complex [segment within superannuation] and the area where people seek the least advice. So these people who want to take control of their own future tend to do that on their own. If you need advice, that's probably where you really need it – in that SMSF area.

What protections should SMSFs have, if any? Minister Shorten has said SMSFs are "swimming outside the flags"

BRAD FOX

[The question is], why are people going to SMSFs? Should they be there? If they are there, are they protected being there? And is the job of protection just their own, or should they be outsourcing to do the job well?

We all need rules – we need to know where the flags are – but if you're going to self-advise, the challenge becomes this: what is your mechanism to stay up to date with the intricacies of the law?

BRUCE TUSTIN

There's a lot of evidence of trustee misbehaviours. Going back 20 years, I've seen some hideous examples of trustees not understanding their responsibilities [and] breaching laws, which gives rise to massive problems. It has costs from a compliance perspective and costs just to repair the damage. And often the damage can't be repaired.

Trustees need protection. Advisers can't always keep up with what trustees are doing either. Where are they spending money? Are they inappropriately using cash? You need a mechanism or a platform or a tool so that can be monitored and managed on a daily basis.

That protects the trustee but it also protects the planners. It highlights breaches and gives people time to reverse the transaction if it has that sort of consequence.

How much should or do trustees outsource to professionals?

RICHARD MAGNEY

[At SPAA] we always categorised the trustee into two categories: the controller and the outsourcer. We've discovered there's another category called the 'coach seeker'. The controller wants to do everything themselves, the outsourcer is too busy or not interested – has a fund but doesn't want to worry about it. Then there's the coach seeker that still outsources compliance and tax to the specialists but is still interested in being part of the education, implementation and facilitation of the strategy. That's an emerging group we see coming through.

We've seen a sizable shift in the last three to six months on how the adviser re-engages with the trustee – it's around looking at becoming specialised. Our membership has grown dramatically in the last three to six months, with advisers coming to us saying, 'my client is coming to me asking if I'm a specialist, how do I leverage this, how do I improve my competencies and capabilities?'

It's not to say the trustee is moving away from the advice; it's more to say the trustee is looking for specialist advisers going forward.

So what steps could advisers and specialists take to re-engage SMSF trustees?

GERARD HERMENS

We need to understand the market and who the typical trustee is. The market is moving downstream in terms of age and income; we've noticed 75 per cent of all new trustees, about 50 odd thousand trustees last year, are 55 years and younger and about 45 per cent of that are under 45 years of age.

We're also seeing the average income [decrease] – about 67 per cent of new trustees earn less than $80,000 per year and 55 per cent of those are under $60,000 per year.

We're seeing an interesting development between the small SMSF trustee and their businesses.

There's often a blurring of boundaries in what they can and can't do, so it's urgent for advisers to look into this space and say, 'how do we become a trusted adviser?' How do we get back the confidence of the SMSF trustee who's younger and smarter, who's not necessarily on a higher income bracket, who might use newer technologies to get into the advice space and who's happy to outsource if there's value in that?'

For the adviser, my strong advice is to make sure you've got adequate training. I'd intensify the level of

training but I'd focus a little more on the relationship and on the business side.

The great thing about there being a connection, and the larger proportion who are connecting an SMSF to other business structures, is you can go upmarket by becoming a small business adviser.

It's a newer level of understanding. I'm sure there are a lot of financial planners – and we see they're very clever people and very well trained – who are missing that, missing these structures and their understanding of these structures and their capacity to give advice to small business advisers. I know there's a small segment of financial planners out there who are very good at this.

But for the mainstream planner, if you really want to get into this space, I think we can occupy a vital space by saying, 'let's become a trusted adviser but let's also link the connected entities to that'.

Certainly this is a space where a lot of financial planners could benefit.

How would you be advising your advisers to re-engage SMSF clients?

ANDREW MEAKIN

There are very few people who wake up in the morning and say, 'I'm going to create a self-managed super fund. I have nothing to do with four hours of my week, I'm going to spend it reading the tax act, the estate planning act, the super act'...

There are very few of them.

But there are 50,000 people a year [deciding] to set up an SMSF. And why are they doing it? They're doing it because they've been poorly serviced, poorly invested or had some other bad experience in whatever platform they were in. So they decide, 'I am responsible for my retirement'.

The challenge for advisers is to go up the skill

curve. We saw this prior to the global financial crisis, where financial advisers saw themselves as investment advisers – and indeed most people setting up SMSFs see themselves as investments advisers. The statistics from December 2012, [however], suggest they're not that good as investment managers because they've got 28 per cent of their portfolio in cash. So they're struggling somewhat with pulling the trigger on their next investment.

But that's just their first complication. They've got poor investment advice; they've now got an SMSF. Then they've got estate problems, they've got structural problems, they've got tax problems, they've got audit problems, they've got statements appearing in the mail and the [Australian Taxation Office] writes to them occasionally and they think 'this is a pain in the backside'.

From an employer's point of view, the adviser's got to deconsolidate, to unbundle those services ... If you think you [the trustee] is the world's greatest estate planner, you cannot buy that, or if you realise you might need some help you can buy that. If you need investment advice you can buy that.

Or you can say, 'I'm the trustee of my SMSF and I got out of it because I didn't like whoever; I wanted to buy Chevron shares listed on the NYSE; [and] other than that, I want to buy into some technical advice and some coaching' – and you can do that as well.

The big thing for advisers is they need to get ahead of the game. The answer is no longer the AMP, Colonial, National Mutual, MLC block fund. By the same token, we've seen people come out of those sorts of environments in superannuation and said, cancel that. They've cancelled their income protection and TPD, [and] they've turned up at the front door and said, 'I need some advice: I've got $500K in my SMSF, I borrowed some money from the bank

There's often a blurring of boundaries in what [a trustee] can and can't do, so it's urgent for advisers to look into this space and say, 'how do we become a trusted adviser?'

and bought a place on the Gold Coast, I've got a $1 million mortgage at Marrickville and I've got no life insurance'.

You look at them and you say, 'I don't know how I'm going to get it for you', but they walk away from a perfectly good policy in a retail fund where it was automatic acceptance.

BRAD FOX

[Regarding how we get them] to re-engage with an adviser, we have to look at why they haven't been engaged already. Only two out of 10 people get advice. So whether they had an advice relationship and weren't happy with it and decided to start an SMSF, or they've never had advice, we don't know.

But if we want to engage people with advice, it goes back to the absolute basics of an adviser/client relationship. There's the two elements: the hard skills and the soft skills.

We've talked about upskilling advisers. It's not right for an adviser to think that overnight they can go from using managed funds or model portfolios from their dealer group to becoming a direct investment adviser. They've got to become upskilled to get to that point.

Similarly, they've got to have the soft skills to engage people in a way in which they want to be engaged. Do they [the trustee] want to be the person that pulls the triggers and makes the call [on which stocks to buy]? If they want to be, that's fine; the adviser still has a role to play as their sounding board, their coach and their collaborator in the decision, testing them. Ask them why BHP not Rio.

Very few people are adequately skilled to be their own investment adviser because they can't divorce themselves from the emotion of their decision making. We all benefit from having a mentor in our career. Very few people can do this well on their own; they need support. Then it gets back to a choice of structure: should it be an SMSF or not? Should it be a solution around the administration over here and investment over there. Insurance over here, estate planning advice over there.

I would hazard a guess that most people who are a trustee of their own SMSF have never written down those four things together as a deliberate way of running a fund, yet really they are obligated to. How am I going to test, how am I going to administrate, how am I going to make my decisions?

As an adviser I've come across people taking TTRs from their managed fund without a trustee that supported them.

There have been suggestions that accountants are too focused on finding a 'correct' answer to provide a holistic or strategic approach the way an adviser can.

MATT JOHNSON

Isn't it horses for courses? There are three basic elements for an SMSF: the investment piece, the admin and compliance, and the strategic advice.

Strategic advice just got more complicated [following recent Budget changes to super]. You've got sub limits within limits, and from an administrator's point of view, we believe you should outsource the administration to the appropriate area – don't try to be the administrator.

If you want to be an investment adviser, have the right qualifications to be able to provide investment advice to your client or, as Brad Fox was saying, allow the trustee to make the decision and use you as a sounding board. The third piece is the strategic advice. You can't control the markets; administration is boring, but has to be done properly; but you can control the strategic advice.

There's enough strategic business out there to just focus on strategic advice. ●