Spruiker-led 'FOMO' investments worry local super experts

Neale Prior

It's hard nowadays to have a half-decent conversation about superannuation without going into the property spruikers targeting Australia's $2 trillion retirement savings pool.

And the Curtin University/*WestBusiness* Outlook Series discussion last week with some of WA's leading thinkers about superannuation was a lot more than half-decent and it gave even more worrying insights about super property investment.

Financial Planning Association WA chief David Sharpe described property investment by self-managed superannuation funds as a "slow-moving car crash". "It's a nightmare," he said.

Mr Sharpe pointed to the dangers of people getting money out of their conventional superannuation funds, putting it into an SMSF and then borrowing a big chunk of money to buy an overpriced apartment in the hope of a big profit.

"If you assume apartments grow at 4 per cent or 5 per cent, you are six, seven or eight years before you get your capital back and you've lost all your contributions," he said.

Curtin University associate professor Helen Hodgson, a taxation specialist, said the SMSF sector was vulnerable because spruikers knew client funds had regular income streams that became an untapped source of money.

Dr Hodgson said the spruikers played on the belief held by people that they could do just as well as professional managers and they became vulnerable to offers of help from property promoters.

"They think they are accessing their own wealth and taking control of it but in the process they are doing high-risk deals," she said.

The comments reflect concerns raised with *Your Money* in recent weeks about people with little understanding of the nuances of property or investment management being persuaded by property promoters to set up do-it-yourself super funds.

It is probably the most extreme version of the traditional model where accountants, chasing extra auditing or accounting fees, get clients to take their money out of retail superannuation funds and set up DIY funds.

While DIY super funds can be highly useful to people with a strong understanding of investment or for business owners hoping to hold their property in a tax-effective vehicle, regulators and industry specialists are concerned they can be costly mistakes for others.

RSM director Katie Timms, an SMSF specialist, said she regularly saw people who had bought into property investments and even started DIY funds without fully understanding what they had done.

"We even had a client come in who said, 'I think I might have a self-managed super fund, here are all the documents'," Ms Timms said.

"They had a property. It was a property spruiker in a shopping centre. They had no idea they had a super fund and they had borrowed through the super fund. They just didn't understand it. It was just a 'great investment opportunity'."

Ms Timms and Mr Sharpe said victims of these scheme were often highly skilled and educated.

Mr Sharpe said it was "FOMO" — fear of missing out.

Despite its membership base generally being a fair way from the top income slots, WA Super's general manager of client services, Paul Owen said starting an SMSF was the most common cause of people leaving his local-government industry super fund.

He said his organisation carried out a market survey of people who had rolled over to an SMSF. None would have stayed if WA Super had an offered an option for direct investment in shares.

So what did the departing members want? "Most of them didn't know — most said it was because their partner . . . was setting it up and moving it to a family-based thing," Mr Owen said.

"Most said they wanted more control. When (we) asked them what did that mean, they said they would get better returns and lower fees. When asked what the fees were or what the return targets were, they couldn't answer either."

Dr Hodgson there was a niche in the financial services market that had been set up to market SMSF-related services and related items such as wrap accounts.

She said people thinking about a move should consider whether they would be better off in a professionally managed fund, where fees were often lower and there was no worry about audit and compliance.

"You have protection you don't get in SMSF," Dr Hodgson said.

Mr Sharpe said he did not have a problem with people buying a business property and putting it in an SMSF, or even shopping around to find a good property investment to put into a DIY super fund. "The problem is people are being sold it (not as) a strategy but because the spruiker is selling it," he said.

Early birds get the super worm during retirement

PEOPLE DO NOT PUT ALL THEIR EGGS IN THE SUPERANNUATION BASKET AND THEY TEND TO USE OTHER TAX HAVENS.

HELEN HODGSON

WE CONFUSE TOO EASILY WEALTH WITH INCOME.

DAVID SHARPE

THE CONSTANT TINKERING AND CHANGING OF THE RULES IS CREATING UNCERTAINTY.

PAUL OWEN

CHANGES TO SUPER WILL HAVE A FLOW-ON EFFECT TO THE HOUSING MARKET.

KATIE TIMMS

WE NEED TO HAVE A CONVERSATION ABOUT PEOPLE'S EXPECTATIONS.

TRISH LANGDON

Superannuation and taxation experts at the recent Curtin University/*WestBusiness* Outlook Series roundtable event.
Picture: Michael O'Brien

PEOPLE SHOULD PAY OFF THEIR RETIREMENT IN THE SAME WAY THEY WOULD PAY OFF THEIR HOME.

BEN DEVENISH

START SMALL AND START YOUNG.

RICHARD MATSINGER

Recent crackdowns on super contributions have experts calling for a change in thinking.

Claire Tyrrell

Start young and start small when it comes to building a superannuation nest egg.

That was the advice from a group of finance experts at a recent Curtin University/*WestBusiness* Outlook Series roundtable event about the impacts of the Federal Government's changes to superannuation policy.

A series of crackdowns on people making contributions to superannuation, including on so-called concessional contributions, in May's Federal Budget, have made it harder to save for retirement.

Concessional contributions are made from pre-tax income.

The experts said the days of the final sprint when it came to topping up superannuation funds at a late stage in your working life were ending with the new regulations.

Shadforth Financial Group manager advisory services Ben Devenish said superannuation should be "more front of mind" for working Australians.

"People should pay off their retirement in the same way they would pay off their home," he said.

He said the baby boomer generation enjoyed almost unrestricted abilities to put money into their super, but recent rules changes made it more important to build up a super fund over time.

As of July 1, 2017, the annual concessional contributions cap for people over 49 will fall from $35,000 to $25,000.

The cap will change from $30,000 to $25,000 for people under 50.

The crackdown by the current coalition Government is a far cry from the golden days under former treasurer Peter Costello when Australians could make million-dollar super contributions.

This allowed some lucky Australians to build massive nest eggs in super with all its tax concessions.

Financial analysts fear that governments have gone from one extreme to the other, with people who were unable to afford contributions in the Costello era now having very restricted opportunities to salary sacrifice big chunks of income into super.

Salary sacrifice arrangements from pre-tax income are a major concessional contribution.

Mr Devenish said the concessional caps presented "a big problem for people trying to play catch up, which is what the vast majority tries to do".

RSM director Katie Timms said reducing the cap would have a negative impact on people in their 40s planning for retirement.

Ms Timms said the scaling of contribution caps would make a big difference for people in the final stages of their working lives.

"We all know spending habits change, you do have that sprint between 50 and 60," she said.

"Now, they have cut it off for people who are 45 and were planning that."

And a key worry is that the tough restrictions on super contributions now could have the unintended consequences of making people more reliant on the age pension in years to come.

Mr Devenish said Canberra might collect more tax now but would pay out more in pensions later to people who might otherwise have saved more into super if they had been given the chance.

"It is restrictive and from a broader perspective, it will have some bigger implications for Federal coffers," he said.

"You squeeze concessional caps from $35,000 to $30,000 to $25,000 — people aren't going to go and balance that back to make sure they still get the same endgame with super."

Axis Financial Group business development director Richard Matsinger said marginal increases to your super contribution at a young age made substantial differences to a person's retirement income.

"If you can increase your rate of return by one per cent for the next 25 to 26 years of your working life, it is going to make in the order of 25 per cent to 30 per cent difference to your annual spend and income in retirement," he said.

Salary sacrificing superannuation contributions was flagged at the roundtable as an important way to top up super accounts early.

Curtin University associate professor Helen Hodgson said changes to concessional caps intended to benefit women had little impact on the majority of females.

The measure, aimed at people who have breaks from the workforce, allow people with a super balance of less than $500,000 to roll forward their concessional contributions for up to five years.

Dr Hodgson said this could apply to high-income earners with discretionary income after paying childcare and education, which was a minuscule section of the female workforce.

The gender pay gap, she said, was a critical reason Australian women had lower super balances.

"That is the biggest reason women have lower super balances. It is not just different work patterns but even when we are working we get paid less than blokes do," she said.

Globe Financial Planning director David Sharpe said contributions splitting could solve the disparity between men and women's super balances.

But WA Super's general manager of client services, Paul Owen, suggested this measure could be a perverse incentive to divorce.

"To take advantage of contribution splitting to be able to share it with your partner, you could get divorced," he said.

Council on the Ageing WA chief executive Trish Langdon said when it came to superannuation, it was important to work out what people's expectations were.

"Are we expecting people to self-fund their retirement, to top it up with a pension, and how will we treat older people who want to leave a legacy," she said.

"Older people want a degree of certainty, and we need to have a conversation about people's expectations."

While a start-small-and-young approach is encouraged as part of the new regulations, there are other ways to maximise your super.

The roundtable was told most local governments employed a matching system, where if an employee wanted to make their own super contributions, their employer matched additional contributions up to 5 per cent of their pay.

Soft compulsion, where employees automatically salary-sacrifice a percentage of their wage into superannuation, was seen by Mr Owen as a way of boosting employee's savings.

Workers could choose to opt out of the measure if they could not afford the extra contribution — normally about 3 per cent of their wage.

Mr Owen said if soft compulsion was legislated, it would make a big difference to the savings of Australian workers.

"We all agree that putting in extra is the single biggest change you can make," he said.

"If when you start a job an extra 3 per cent was salary sacrificed unless you opted out it would make a significant change."

He said the measure played to the apathy most Australians had around their superannuation.

Mr Sharpe, the WA chapter chairman of the Financial Planning Association, said abolishing the annual cap on contributions for people with less than $500,000 in super would help people save for retirement. He said this would allow people to catch up on their super contributions.

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