Retirees shift pension funds to SMSFs

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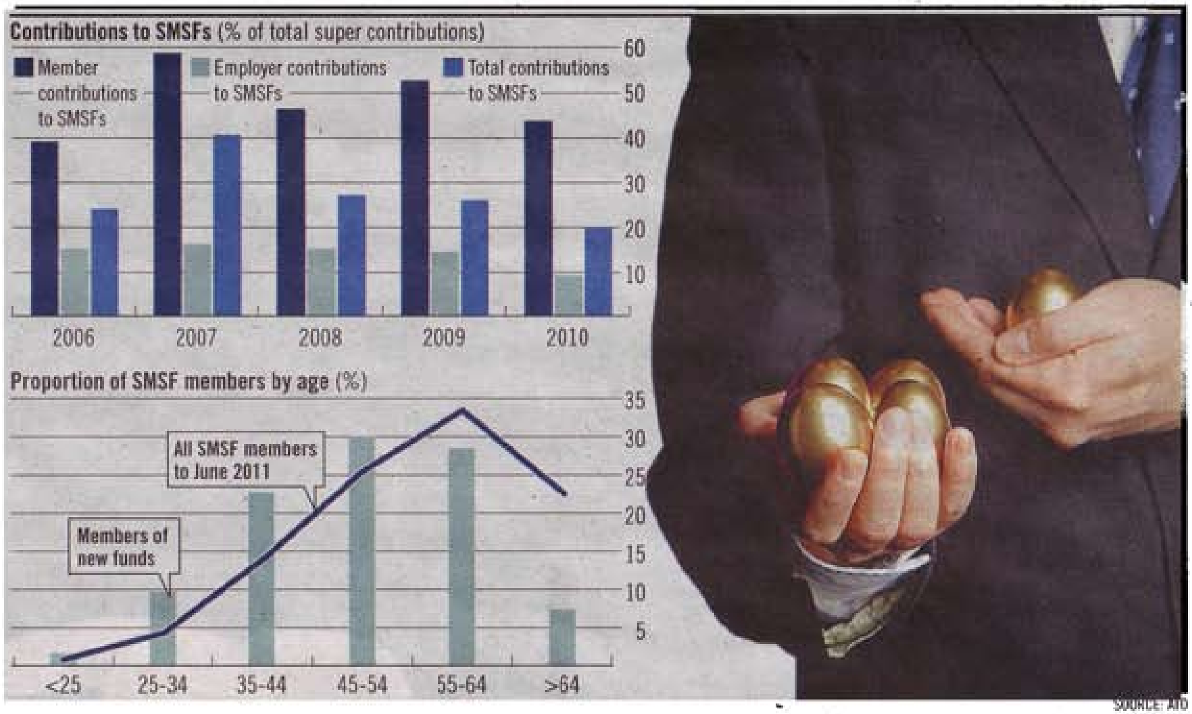
Self serve



More retirees are shifting their life pension savings into self-managed superannuation funds, in a grab for control that will drive corporate and industry funds to switch strategies to stop members fleeing.

Statistics released by the Australian Taxation Office showed that around 30 per cent of SMSFs starting pension payments in 2010 were less than two years old.

Institute of Chartered Accountants head of super Liz Westover said that the shift in the number of SMSFs commencing pensions in their first year of existence – nearly 14 per cent of plans – was interesting.

"This may indicate a greater level of control sought by Australians when they retire and have more time to dedicate to managing their affairs," she said.

As the baby boomers surge into retirement, the pension phase of superannuation is providing opportunities for the $1.3 trillion industry.

Actuarial firm Rice Warner predicts that by 2026, post-retirement assets will rise to 42 per cent of all super fund assets, from 30 per cent at the end of the 2011 fiscal year.

It also foresees that the move towards SMSFs will continue, "largely driven by advisers and accountants".

The latest ATO statistics reflect the relentless shift towards the self-controlled vehicles. Between the 2007 and 2011 fiscal years the number of SMSFs grew by 31 per cent.

More than 29,500 a year were started, on average.

While growth slowed during the financial crisis, to levels of around 6 per cent, the ATO said the rate of growth had returned to 2008 levels of around 8 per cent, "potentially reflecting the improvement in community confidence in the economy and the adaptability of the SMSF sector".

The drive towards SMSFs has prompted the super industry to act to keep members.

AustralianSuper's general manager of growth and new opportunities, Paul Schroder, said that funds needed to be alert to the needs of retirees and the post-retirement world.

"Until now superannuation has been very much an accumulation product, and we're now getting to the stage where people are going to be drawing on their super and moving into retirement," he said.

Coming up with a product and service that helps with the transition to retirement is a challenge for the sector.

"We need to ensure those who are choosing SMSFs for the increase in control can do the same kinds of things in a large fund," he added.

SMSFs in the pension phase favoured listed shares (34.5 per cent) and cash and term deposits (27.6 per cent) in 2010, the statistics showed.

Contributions of the richest plummeted during the global financial crisis. In 2006 the contributions to funds worth more than $10 million made up nearly 8 per cent of all contributions; in 2010, that dropped to less than 1 per cent. In the $5 million to $10 million size bracket, contributions fell 4 percentage points to 4.84 per cent.

The gender of fund members was fairly evenly split, men making up just over half with 52.5 per cent. Those aged over 50 years dominate, comprising 68 per cent of all SMSF members.