Poor record fuels DIY rush

With nearly half a million funds, the spotlight is on the do-it-yourself sector – but new options are emerging, writes **John Wasiliev**.

One milestone that is certain to be achieved over the next six months is the establishment of the 500,000th do-it-yourself super fund. At the current growth rate of about 3000 new funds a month, this will probably happen around February.

While this is likely to attract some extra public attention to the $440 billion DIY super sector, as milestones often do, just how important this might be needs to be put into perspective, the education director at the SMSF Professionals Association of Australia, Graeme Colley, says.

DIY funds have been growing at a steady rate of between 25,000 to 30,000 new funds a year for various reasons – like members of larger funds being disillusioned by the investment performance of their funds and thinking they can do better.

There will always be people who might feel this way about their super, Colley says, and it seems a simple solution to roll their super into a DIY fund. That said, there are other reasons why people set up DIY funds.

The head of technical services with DIY super specialist SuperIQ, Kate Anderson, says the other reason people set up a DIY fund is the control and flexibility they offer, not only for investments but also when the time comes to take benefits, either as a pension or a lump sum.

On the investment side a big attraction is the scope to invest in direct property, including arrangements that allow funds to borrow.

Colley says direct investment in property is one reason super fund members opt for DIY funds.

Other reasons include changes in rules over the next three years that are likely to lift the profile of accountants in DIY super. Although accountants are probably the major professional group involved in DIY super, helping set up new funds, preparing their financial accounts and tax returns and performing annual fund audits, when it comes to giving advice their role is a strictly limited one.

Unless they hold a licence that allows them to give broad financial planning advice – and fewer than one in 10 have this – or give advice under the supervision of an existing financial planning licence holder, most accountants are restricted to giving advice relating to the set-up or closure of a DIY fund under what is described as the accountant's exemption.

Under a new regime that takes the form of a limited Australian Financial Services Licence, accountants who satisfy certain conditions will, in addition to their present role, be able to advise on financial products like basic bank, building society and credit union deposits, general and life insurance, securities such as shares, and simple managed investment schemes.

Also likely to keep a spotlight on DIY funds is greater interest by corporate groups such as AMP, which have financial planning arms that are expanding their DIY super roles. Their involvement, Colley says, is likely to encourage more to consider the DIY super option.

The fact that members of larger funds are likely to consider switching to a DIY fund during tough investment times is an issue that is widely recognised by the super industry.

The chief executive of the $48 billion AustralianSuper mega fund, Ian Silk, acknowledges that one reason why many fund members have lost confidence in managed super has been disappointing investment performance figures over the last five years.

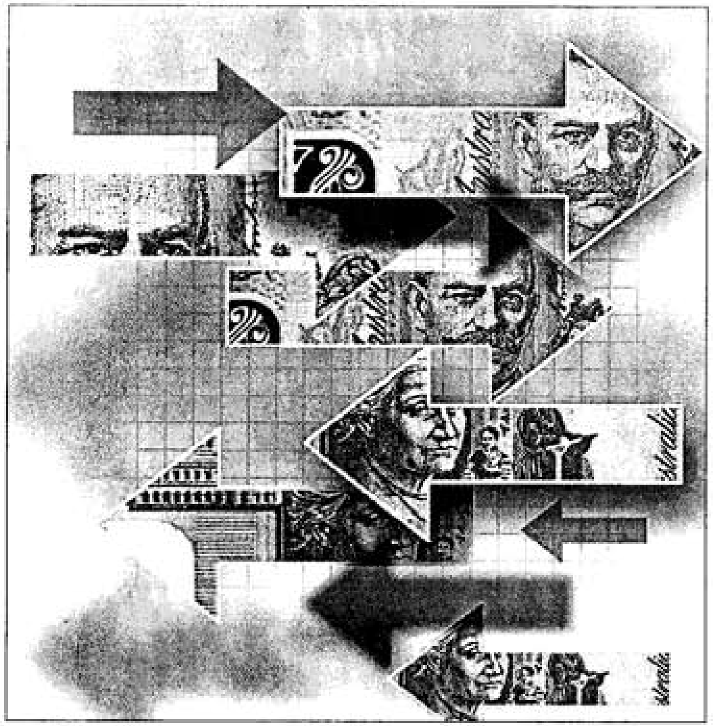
From a performance perspective, it has been a rollercoaster period. While there were a couple of good years during this time, there have also been some horrendous years, leading to a flat average result.

Recognition that members with large super balances are influenced by investment performance is why AustralianSuper has been developing its direct shares and term deposits investment option as a counter to members rolling their money into a DIY fund.

Silk says DIY funds definitely have a place in the super system for savers who are informed investors with the time, the money and the expertise to make good judgments about investments.

They also appeal to those who want to do things that can't easily be done in a collective super fund, such as invest in a business property or a residential investment.

That said, AustralianSuper says the vast majority of DIY funds invest in direct shares, term deposits and cash.



The self-managed super sector is worth $440 billion and expanding rapidly.

Growing choices

- Some 25,000 to 30,000 new funds are established every year, driven by members disillusioned by poor returns in bigger funds.
- Direct property investment is an appealing aspect of the sector.
- Not only are big funds offering their own DIY solutions but one offers direct share investment plans, giving members a choice.