



Self Managed
Super Fund
Association

SMSF Association research into SMSF contribution patterns



RICEWARNER

Insight like no other

13 October 2016



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1. Executive Summary

1.1 Overview

The SMSF Association engaged Rice Warner to provide analysis and commentary regarding their SMSF Member Data.

This analysis will show information segmented into broad areas such as age, gender, size of account and investment strategy. Given the data includes individual records it is possible to analyse the distribution of member behaviours over the year in detail.

Further future updates to the research will also allow longitudinal analysis to determine changes in member behaviour over time and estimate the impact that the budget reforms have had on member behaviour.

The key areas which the SMSF Association wished to examine are:

- contribution patterns of members for discussions with government and budget proposals
- the impact of proposed legislative changes on concessional contributions
- distribution of funds under management over age groups
- impact of voluntary contributions on funds and members

1.2 Results

The key findings of this analysis can be condensed into a number of key points:

- The impact of the proposed superannuation legislation on SMSF members in Australia
 - > Based on our sample, an estimated 22.1% of the SMSF population with a current balance of greater than \$1.6m in 2015 will be effected. These members will be unable to make non-concessional contributions to superannuation under the proposed legislation.
 - > The data does not permit formal analysis, but we would speculate that a significant proportion of members are likely to breach the \$100,000 yearly non-concessional contributions cap given the size of average personal contributions.
 - > Approximately 14% of the sample would have exceeded the \$25,000 concessional contributions cap were it in place in 2015. This amounts to approximately \$30m in additional contributions for the year in the sample considered.
 - > If the carry forward concessional contribution limit was increased from \$500,000 to \$750,000 it would benefit 13% of the sample of which half would be female.
- Clear contribution patterns for SMSF members
 - > In particular, personal contributions accelerate just prior to retirement as opposed to the relatively smooth increase in employer contributions
 - > Members with employer contributions are more likely to make personal contributions, and especially as they approach retirement and beyond.

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2. Background and methodology

2.1 Overview

The SMSF Association engaged Rice Warner to provide analysis of SMSF Member Data.

The key areas which the SMSF Association wished to examine were:

- Contribution patterns of members for discussions with government and budget proposals
 - Information on which members make different types of contributions and any patterns over age or gender
 - Any issues with the current patterns
 - Members affected by the reduction in concessional contribution caps to \$25,000 pa
 - Members with balances over the new \$1.6m pension cap
- Distribution of funds under management over age groups
- Levels of voluntary contributions
- Pension payment distributions by age

2.2 The data

The SMSF Association provided Rice Warner with fund and member data for the years 2013, 2014 and 2015.

For 2015, the data source consisted of 14,351 member entries and 7,593 fund entries. This was the largest sample provided for the three years which were analysed and is valid and statistically significant. The 2014 data source consisted of 1,627 fund entries while 2013 data source provided only 68 fund entries.

We have examined the data for errors and attempted to adjust our analysis for them where they were identified. There were a few duplicated member files in the record set. Some data was only available at the fund level rather than the member level and this has influenced our approach.

This report focuses on the data from 2015. The sample size for the 2013 and 2014 data is too small to draw conclusions.

Additionally, we note that the SMSF Association data is under-represented in the years just prior to retirement, and then comparatively over-represented in the post-retirement phase compared to the ATO statistics.

2.3 ATO Statistics

Overall, the data provided represents a fraction of the existing SMSF's in Australia for each of these years.

- In 2013, the ATO reported 502,709 funds and 951,186 members. The SMSF data represents <0.1% of both funds and members.
- In 2014, the ATO reported 526,275 funds and 991,621 members. The SMSF data represents 0.3% of funds and 0.8% of members.
- In 2015, the ATO reported 556,998 funds and 1,049,840 members. The SMSF data represents 1.4% of funds and 1.4% of members.

Table 1 shows the average assets for members and funds for the ATO and the SMSF Association data for 2013 and 2014.

Table 1. Average assets per member and per fund

	ATO DATA		SMSF Sample Data		
	2012-13	2013-14	2012-13	2013-14	2014-15
Average assets per member	513,805	564,086	275,512	696,872	823,258
Median assets per member	302,808	338,336	70,035	361,882	443,969

The ATO has not released their SMSF data on average and median assets for members and funds for 2015 at this point.

For the statistically significant 2015 data, we note that both the median and average assets under management per member is materially higher than that reported by the ATO. This is indicative of the skew towards older ages as demonstrated in Table 2.

Table 2 shows the difference between the demographic proportions by age and gender by number of members for the SMSF association data for 2015 and the most recent ATO data, extracted at July 2014.

Table 2. Comparison of demographics

Age ranges	ATO			SMSF Association		
	Male	Female	Total	Male	Female	Total
<25	0.8%	0.8%	0.8%	0.5%	0.5%	0.5%
25-34	3.4%	3.5%	3.4%	2.6%	2.3%	2.5%
35-44	10.6%	12.0%	11.3%	7.3%	7.7%	7.5%
45-54	20.8%	23.2%	21.9%	13.4%	13.7%	13.5%
55-64	28.9%	30.7%	29.8%	31.1%	31.2%	31.1%
65-74	25.1%	22.8%	24.0%	40.8%	32.7%	36.7%
>74	10.4%	7.0%	8.8%	10.1%	6.1%	8.1%

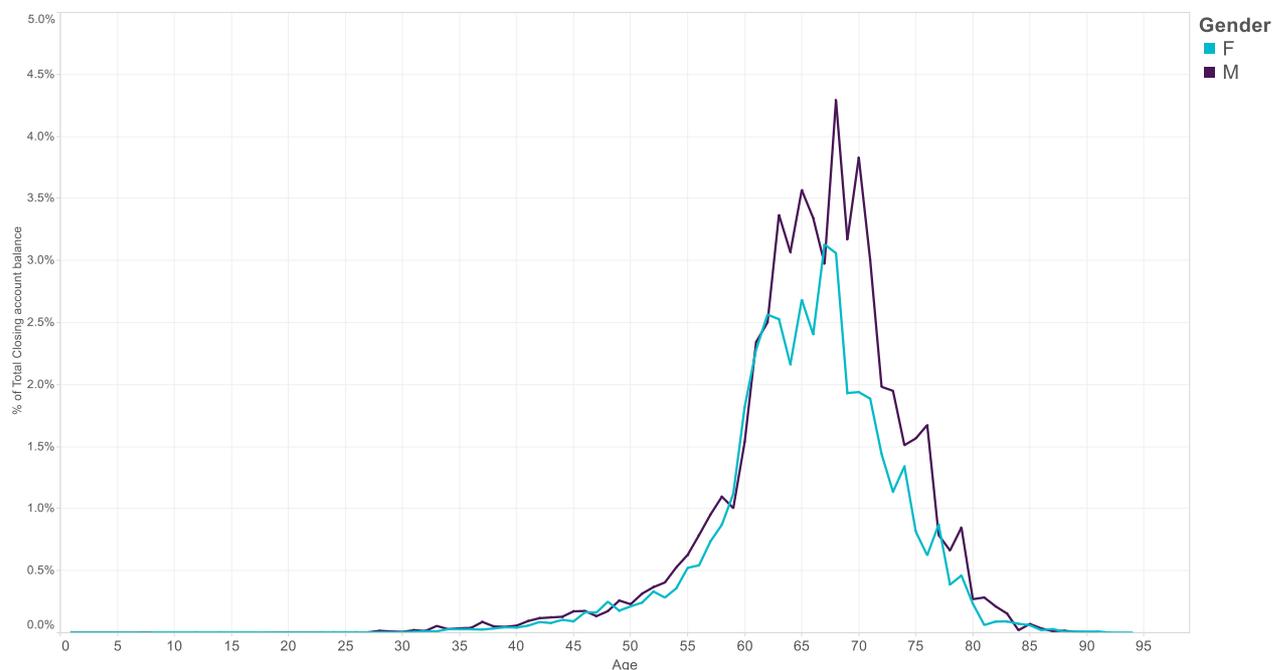
Overall, the most obvious difference in the demographics is the under representation of younger members, particularly in the 35-54 age bracket. This has been counterbalanced by the over representation in the post-retirement area, most notably in the 65-74 age bracket.

It is important to keep these differences in mind when drawing conclusions from the data.

3. Distribution of SMSF balances

3.1 Distribution of assets by age

Graph 1. *Distribution of funds as a percentage by age.*



As shown in the previous section, there is an over-representation of people aged between 55 and 74 when compared to the SMSF population retrieved from the ATO which will ultimately distort the distribution of assets. These are the ages at which we would expect members to have the highest balances, which is examined in 3.2.

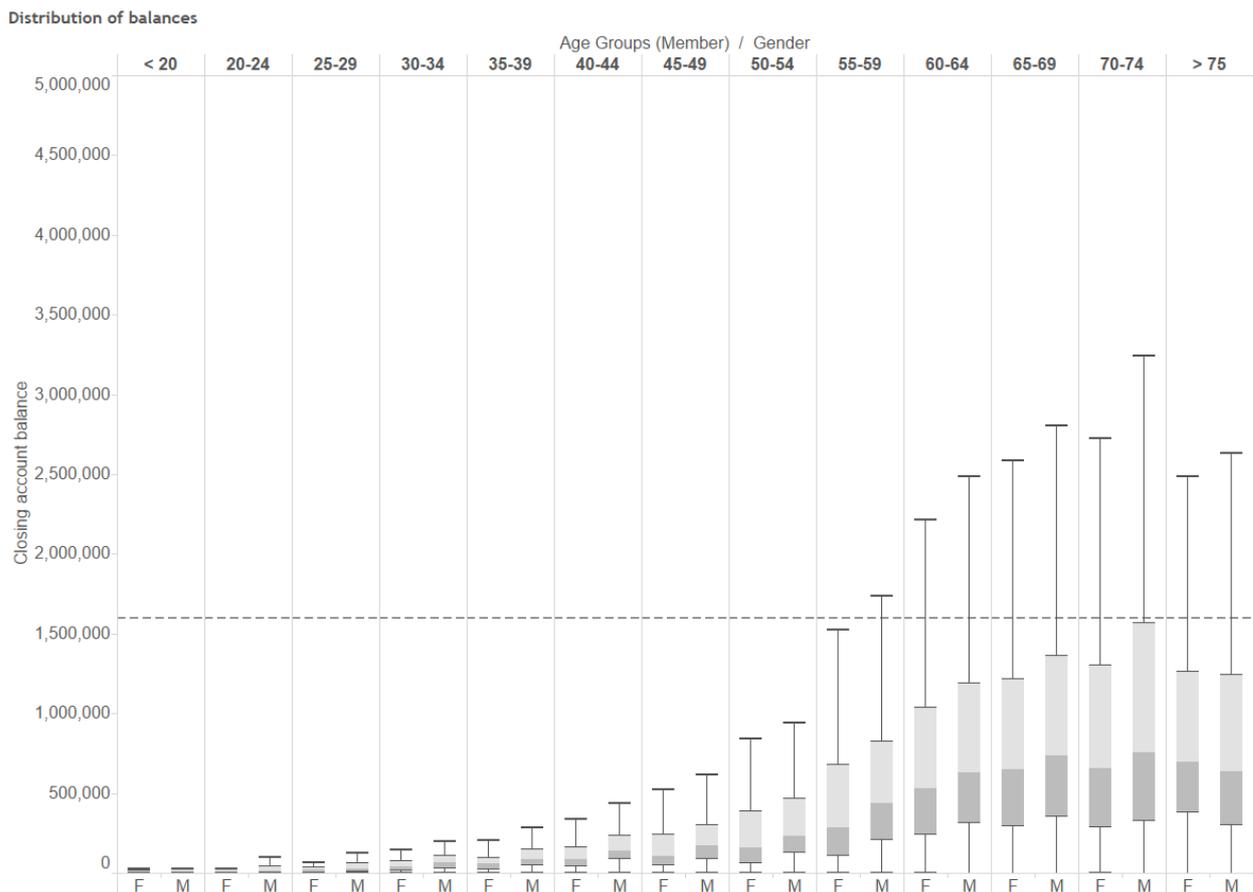
Men tend to have a greater share of superannuation assets than women as a result of higher salaries and unbroken careers. FUM are even more concentrated in the immediate post-retirement age groups than for women and make up a greater share of the overall FUM for SMSFs.

The distribution of funds under management across different ages and gender presents a profile which is largely consistent with ATO data. Approximately half of SMSF assets belong to members in the drawdown/retirement phase, with the other half held by those in the accumulation phase.

3.2 Distribution of balances by age / gender

The following graph is a box and whisker presentation of the distribution of the closing balance of funds in June 2015 by age and gender. The boxes represent quartiles and the limit of the whiskers represent 1.5 times the interquartile range.

Graph 2. Distribution of balances by age and gender



3.2.1 Impact of budget changes on SMSF members with greater than \$1.6m

One of the proposed superannuation changes in the 2016 Budget will impose a \$1.6m limit on the amount transferred to pension funds. Existing pension funds with more assets under management than the limit will be required to transfer the excess back into an accumulation account by 1 July 2017. This is essentially a mechanism to increase tax on the investment income on retirement balances which exceed \$1.6m. Total retirement balances over this limit are permitted and the value of the pension account can also grow to exceed \$1.6m.

We have observed that in 2015 there were 3,170 members with a closing balance greater than \$1.6m from all ages, which represents just 22.1% of the total sample for 2015 and suggests that the SMSF population will be disproportionately affected by the proposed changes.

We note that overall, the majority of self-managed superannuation members have account balances less than \$1,000,000. In 2015, there were 17,615 members with balances under \$1,000,000, or 75% of the sample population. There are 47 high value outliers with more than \$10,000,000 in assets under management which have a distortive effect on the averages.

For males, the upper whiskers in this distributions reach \$1.6m in the 55-59 age group, and the 60-64 age group for females. Those funds will be unable to transfer the entirety of their assets into an account based pension, and those already in retirement will have to transfer assets back to accumulation phase.

Indeed, as the graph shows, members must be in the top quartile of SMSF accounts by size to be affected by the proposed changes.

4. Contribution patterns for SMSF Members

4.1 Contribution data

The following analysis has been conducted by splitting member contributions into employer and personal. This is based on the ATO reporting formats for SMSF members.

Employer contributions include:

- contributions made by an employer for an employee (including contributions made under a salary sacrifice arrangement or to meet the employer's obligations under the super guarantee, awards, agreements or other obligations)
- super guarantee charge shortfall amounts
- employer contributions transferred from our (the ATO's) super holding accounts special account (SHA special account).

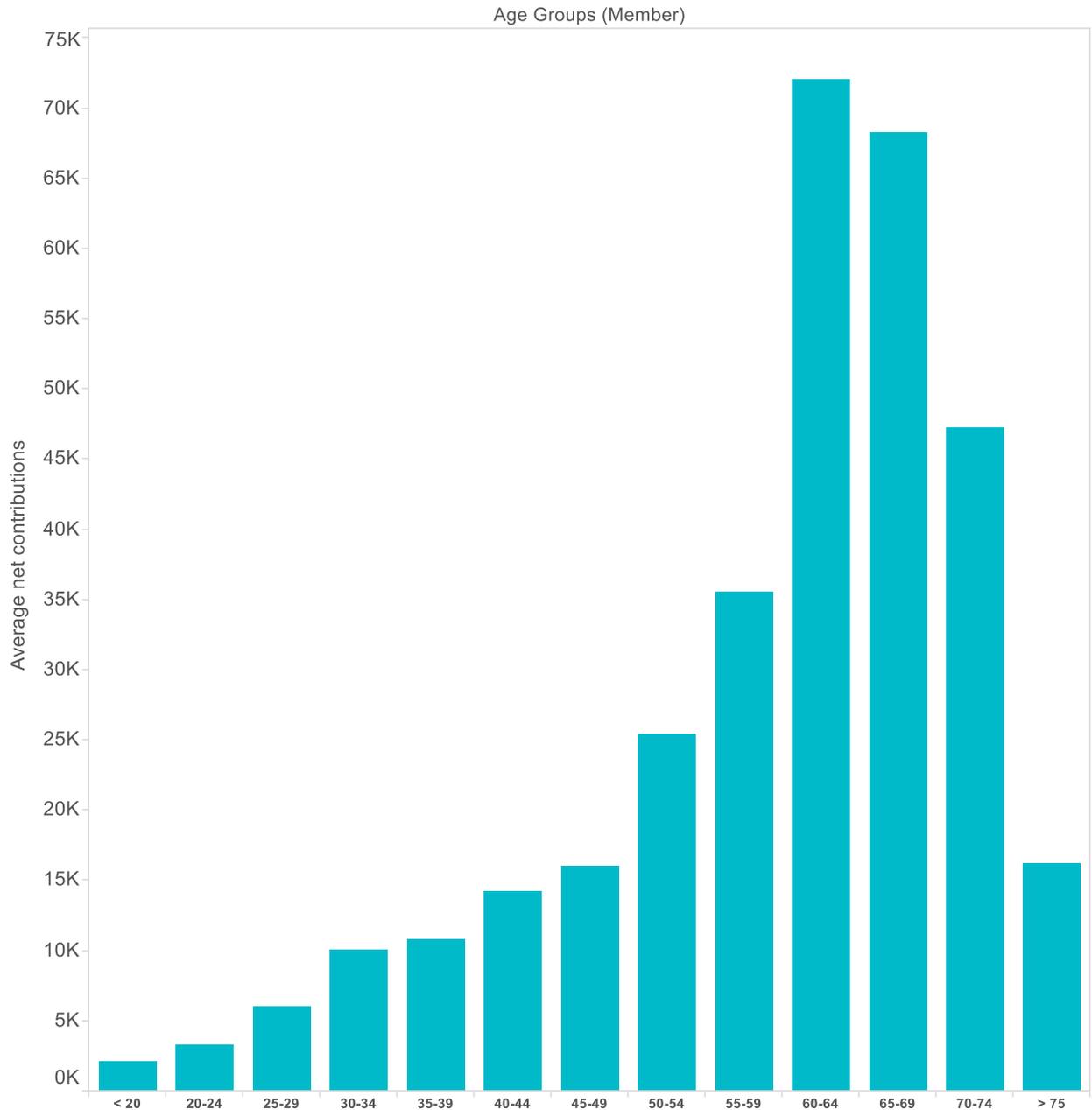
Personal contributions include:

- contributions received from an employer for the member paid from the member's after-tax income
- contributions made by the member themselves (concessional and non-concessional)
- employment termination payments received from an employer for the member
- personal contributions funded by personal injury payments that are not included claimed for an exemption from contribution caps
- personal contributions funded by the proceeds of the sale of assets, (excluding those with elections to be omitted from the contributions caps – i.e. CGT small business exemptions).
- contributions received from a non-complying super fund.

4.2 Total net contributions

Graph 3 shows the average value of contributions made by SMSF members net of any tax paid by the fund and is split into 5-year age groups.

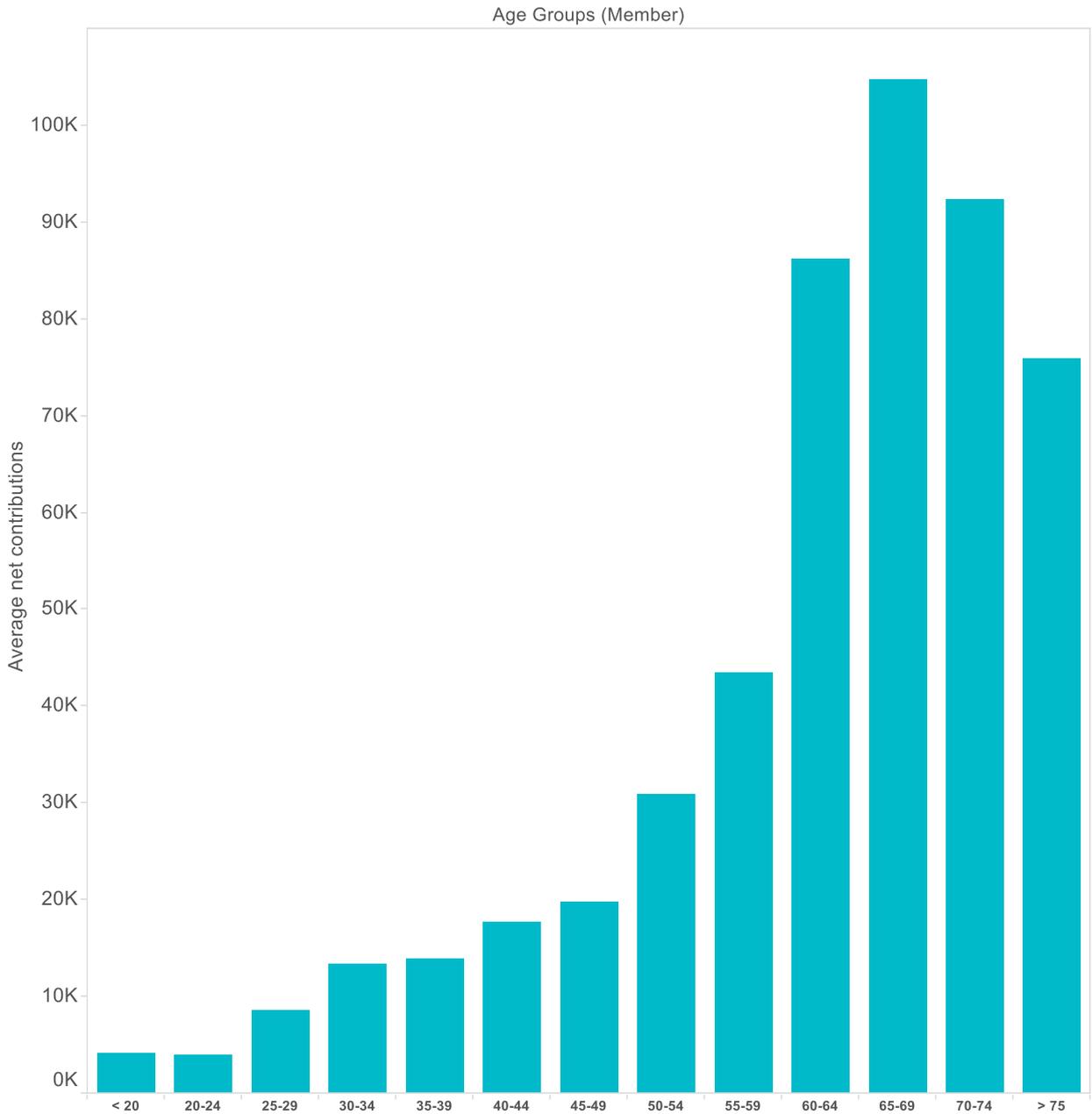
Graph 3. Average net contributions by age all members



As expected, contributions increase significantly as members age. This can largely be explained by three factors. Firstly, most members will experience income growth over their career which will flow through as higher mandatory and voluntary contributions. Secondly, disposable income increases as mortgages are paid off and children leave home. Thirdly, there is a strong tendency for members to connect more strongly with their superannuation funding adequacy as they approach retirement: it becomes a more immediate issue and access to the funds becomes more imminent.

Graph 4 shows the average contributions net of tax excluding members who have made no contributions or are showing a negative net contribution.

Graph 4. Average net contributions for members with positive contributions



The same general trend can be observed, with the level of contributions increasing rapidly as members close in on retirement. However, the large number of members who no longer contribute past age 65 drags heavily on the average contributions. For those who do contribute late in life, there is a tendency to make very large contributions.

4.2.1 Impact of budget on concessional contributions

The proposed legislative changes include the implementation of a reduced cap on concessional contributions, to \$25,000 from \$35,000 for those aged 50 years and over and \$30,000 for those aged less than 50 years. We expect that this will disproportionately affect the SMSF population based on the data provided. If this cap was implemented in 2015 it would have affected 1,983 members, or 13.8% of the 2015 population.

4.3 Personal Contributions

Personal, or non-concessional, contributions are a major factor in the development of balances appropriate for retirement, however they tend to be underutilised by Australians, particularly at younger ages.

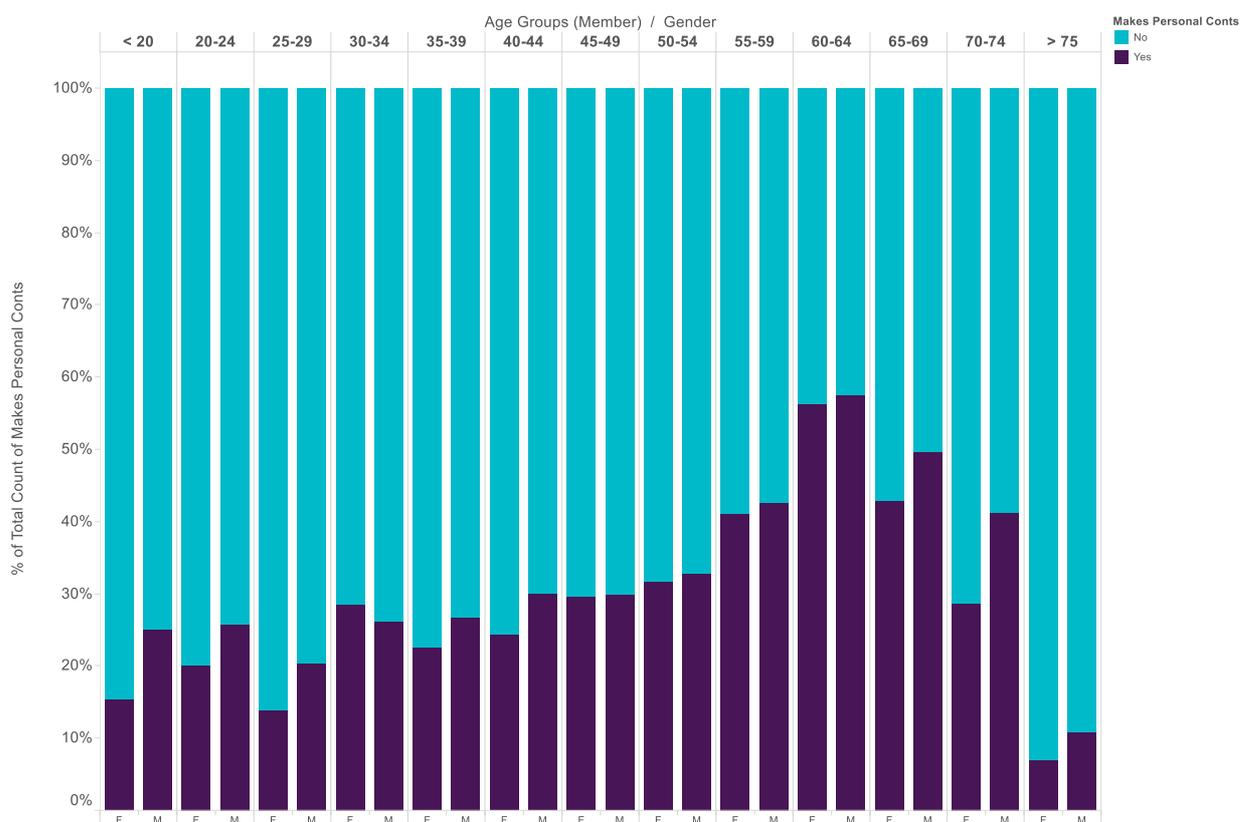
We note that it is possible that some personal superannuation contributions may have been ‘re-contributed’ to the fund after being withdrawn from a TTR pension which may result in overstating the increase in the account balance. The recent budget changes will result in some members who use this strategy having non-concessional contributions count towards their contributions cap despite not actually increasing the superannuation balance. Further, changes to the tax treatment of TTR pensions may result in fewer members utilising this strategy in future.

Members making personal contributions have been separated into three groups for analysis:

- the whole population
- those who are receiving employer contributions
- those who are not receiving employer contributions.

Graph 5 shows the split of members who are making personal contributions to superannuation in 2015 and those who are not for the entire population (irrespective of whether employer contributions are being made).

Graph 5. Split of members making personal contributions by age and gender

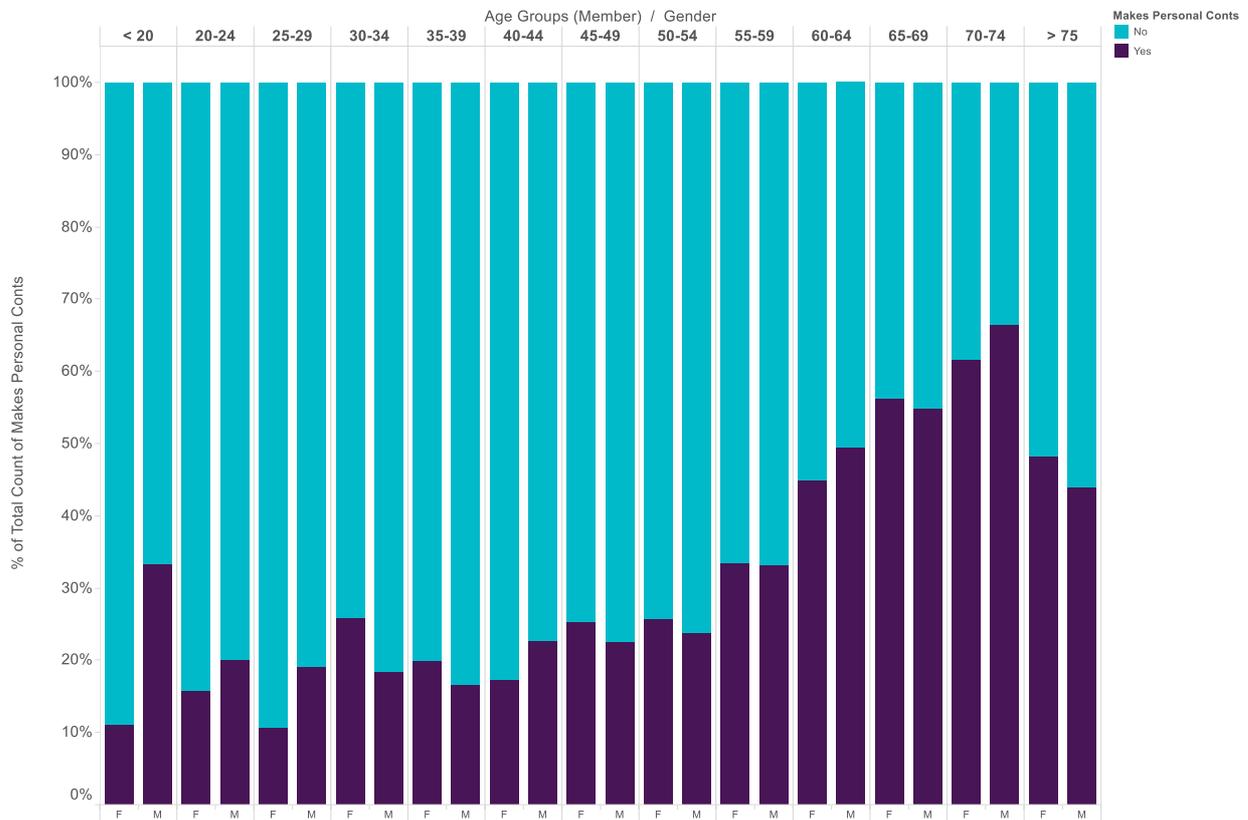


It is not until the 60 to 64-year-old age band that those making personal contributions to superannuation are in the majority. Indeed, the percentage of people making personal contributions remains flat, slightly under 30%, until members are roughly 40 years old. This profile is broadly consistent with the remainder of the superannuation market, although SMSF members generally make larger contributions. We expect that the growth in contributions in this age bracket is also partly explained by re-contribution.

Again, we note the distribution of members making personal contributions across age groups, and the increase as members begin to engage with their financial affairs more deeply as they approach retirement.

Graph 6 shows the split of members who are making personal contributions to superannuation and those who are not for the member population who are receiving employer contributions.

Graph 6. Split of members making personal contributions by age and gender. Receiving employer contribution



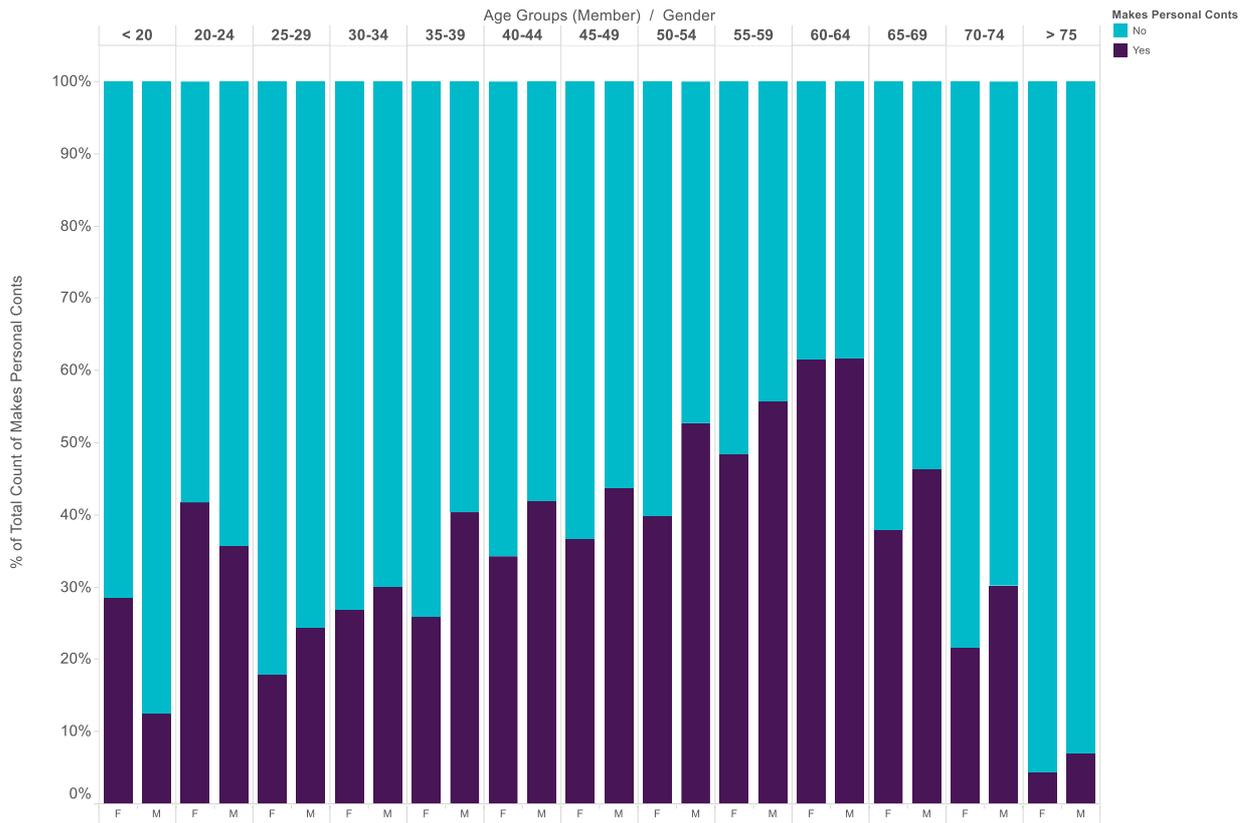
Overall, the pattern remains largely the same, however the percentage of members who are making personal contributions is slightly higher overall. This is primarily driven by the materially higher percentages making personal contributions above the age of 65 for both males and females. Additionally, the rate at which these contributions ramp up as member’s approach retirement is slightly more aggressive.

The relative increase after age 65 is likely entirely driven by the fact that these members are still employed at and able to make personal contributions as a result. Beyond the age of 65, the percentage of members who receive employer contributions rapidly declines from 42% in the 65-69 age bracket to 11% for those above age 75.

There has been significant controversy around general pressure from the government, including increasing the retirement age, for people to continue to working. This group appears to meet that objective by continuing to work beyond 65.

Graph 7 shows the split of members who are making personal contributions to superannuation and those who are not for the member population who are not receiving employer contributions.

Graph 7. Split of members making personal contributions by age and gender. No employer contribution

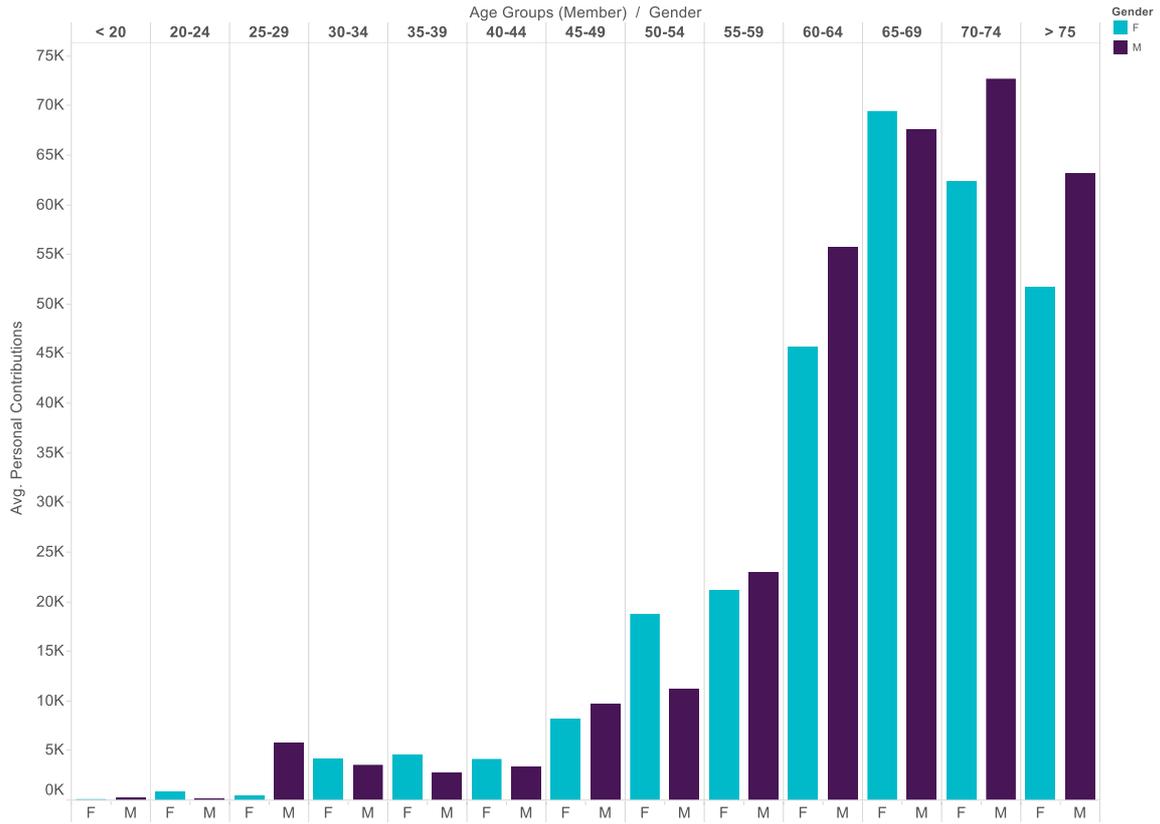


Again, the overall profile does not deviate significantly from the overall group. The main point of difference is that the percentage of members who are making personal contributions after the 60-64 age group is slightly lower. The spikes in the two youngest age groups are primarily driven by the small sample size of the data.

It is important to note that members who are not receiving employer contributions will be a mix of those people who are not employed and those who are self-employed. Self-employed members will be making personal contributions to their super in lieu of SG and salary sacrifice contributions.

Graph 8 shows the average personal contributions split by age and gender for those members who are receiving employer contributions.

Graph 8. Average personal contributions by age and gender. Receiving employer contribution

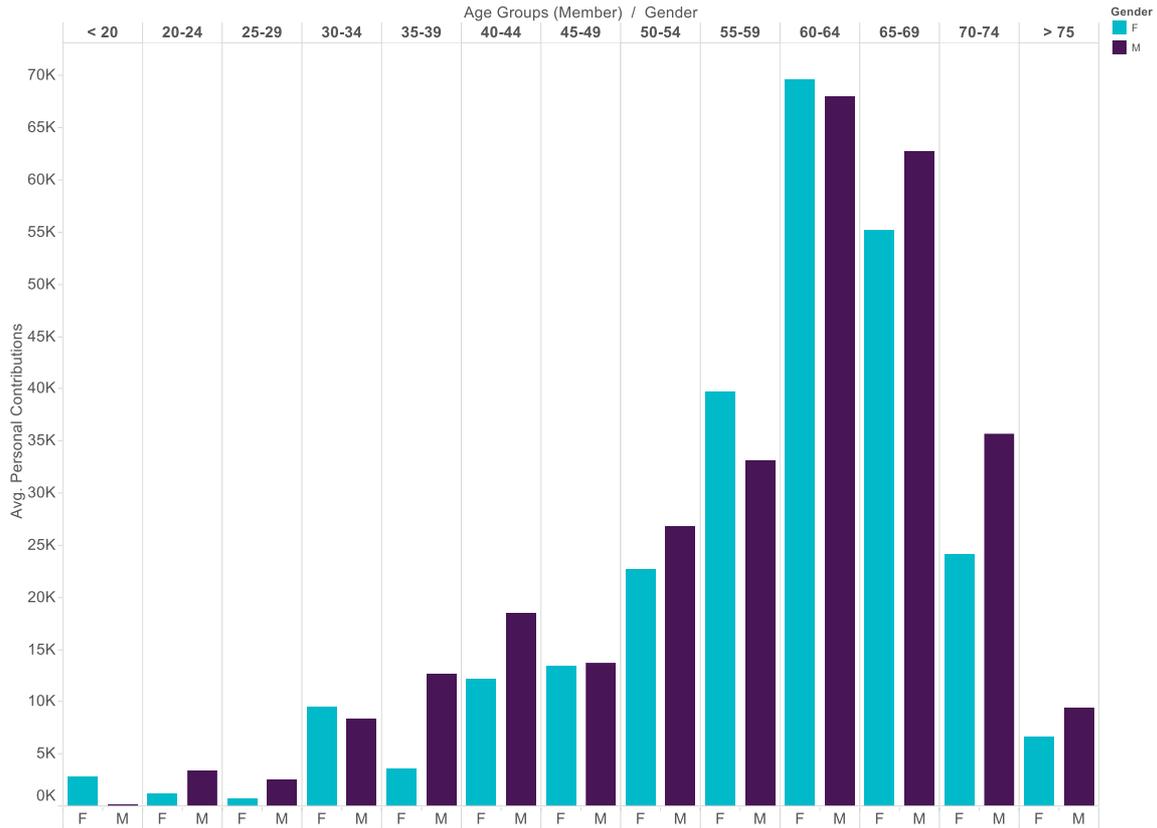


The relationship between age and engagement with superannuation is again clear, although the ramp-up during the approach to retirement is particularly steep, with members in the 60-64 age group making personal contributions approximately double the size of those in the 55-59 age group.

Again, members who are still employed late in life are much more likely to make sizable personal contributions.

Graph 9 shows the average personal contributions split by age and gender for those members who are not receiving employer contributions.

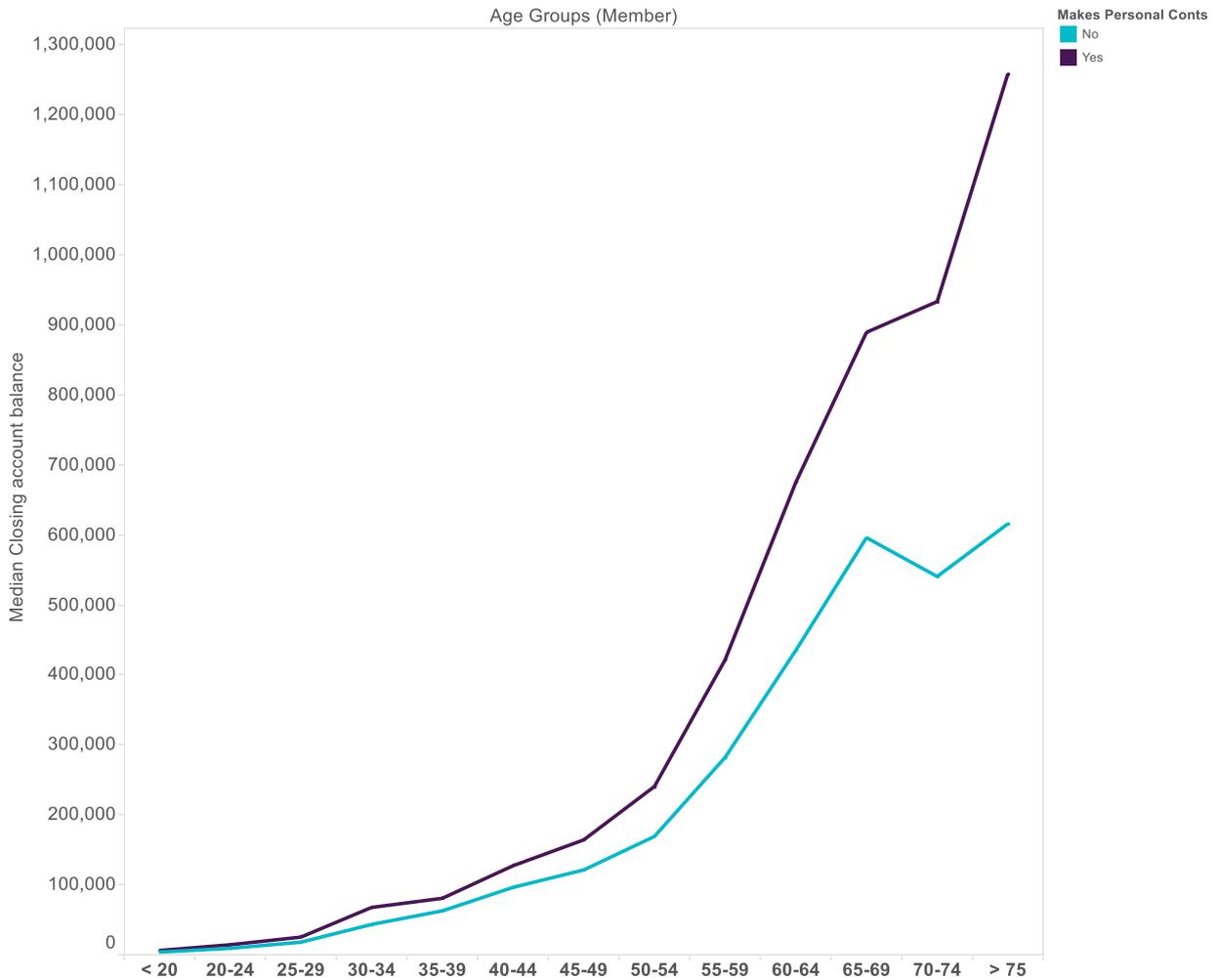
Graph 9. Average personal contributions by age and gender. No employer contribution



The profile of members not receiving employer contributions shares similarities with that of members who are receiving employer contributions and there are two main points of difference. The first is the sharp reduction in the size of personal contributions after age 65 as a large proportion of the members - those who are not self-employed - will begin to draw down on their superannuation balance. The second is the slightly earlier peak for the size of the personal contributions. For members without employer contributions it occurs in the 60-64 age bracket, and for those with employer contributions it occurs in the 65-69 age bracket.

Graph 10 shows the median impact of personal contributions for members who are receiving employer contributions.

Graph 10. Median Closing balance of members with personal contributions vs those without

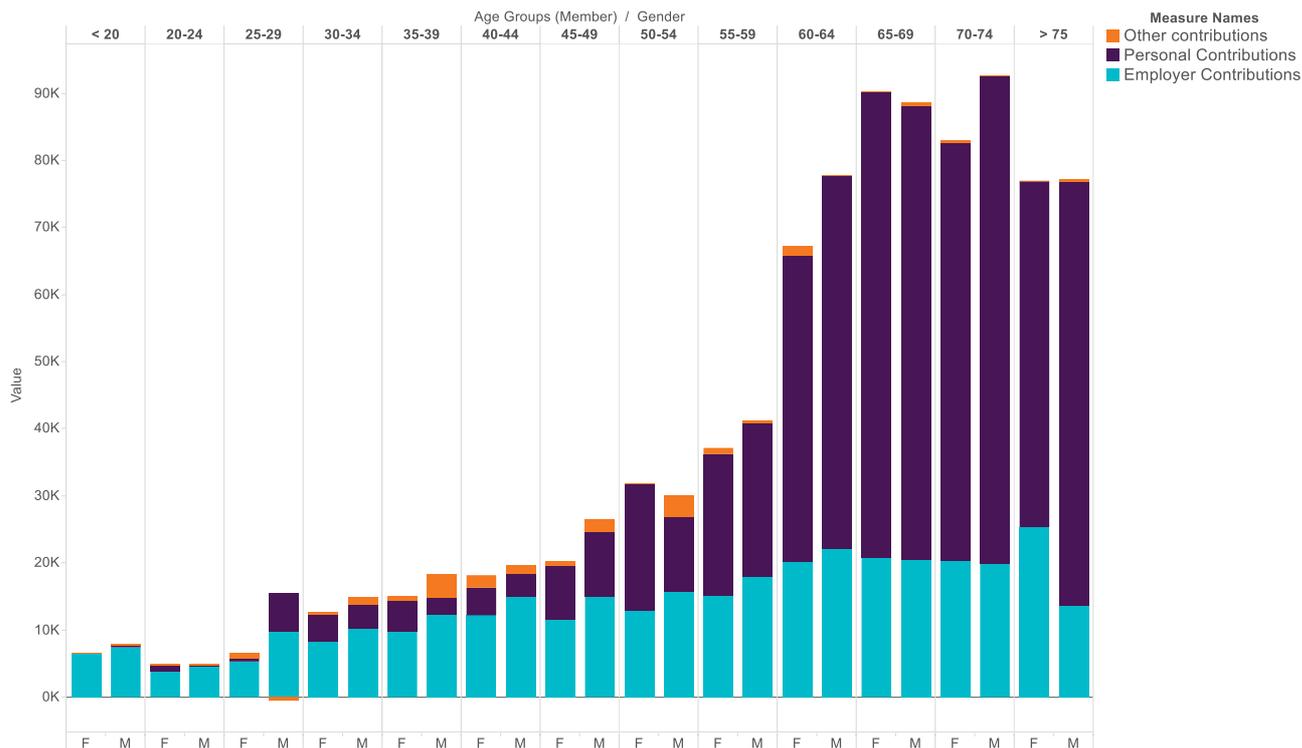


This demonstrates the impact that personal contributions can have on superannuation balances at retirement. Balances begin to materially diverge in later ages as members are allowed to make more significant concessional contributions - \$35,000 instead of \$30,000 – and have access to the funds to make significant non-concessional contributions. Additionally, after age 60, members can also begin to recontribute any pension payments from their SMSF if they have other sources of income to pay living expenses.

4.4 Composition of contributions

Graph 11 shows the split of all contributions into three main areas – employer, personal and other – for members who receive employer contributions.

Graph 11. Split of average contributions by types, age and gender

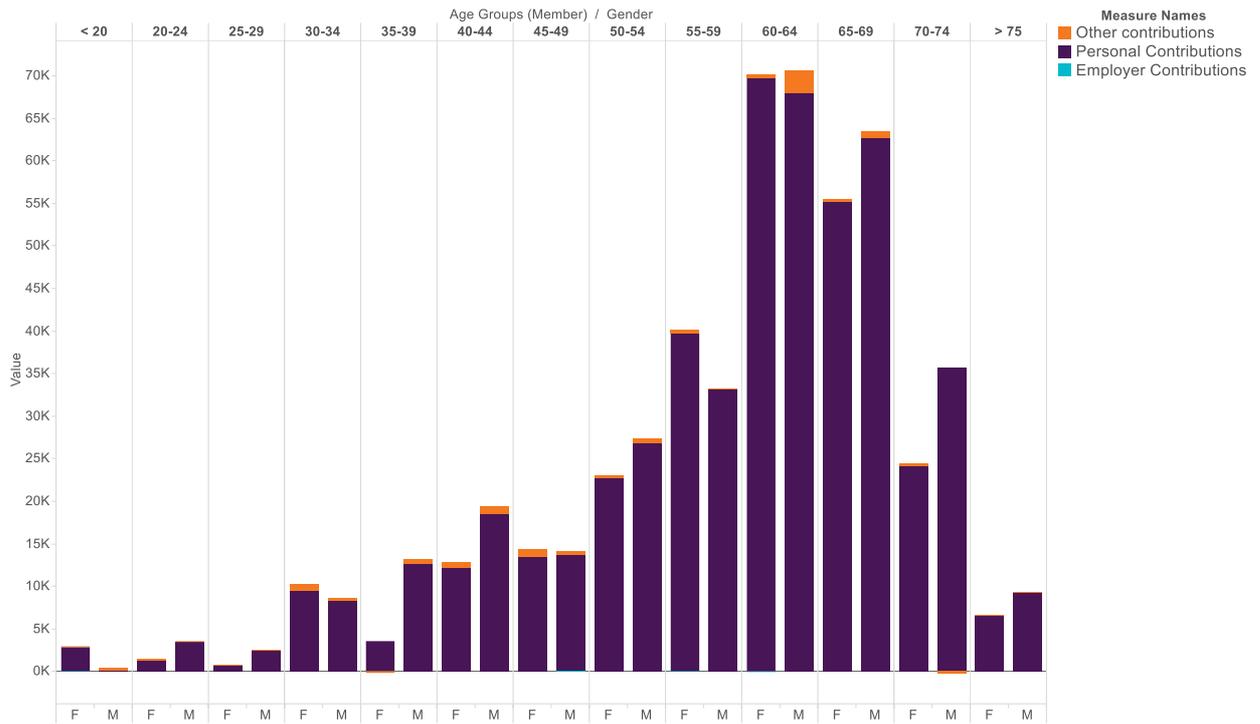


Personal contributions form the bulk of superannuation contributions from approximately 55 years of age for both genders, and dwarf employer contributions in terms of average value after 60. They are one of the major factors for the profile of FUM held in superannuation by age being skewed towards members close to, or in retirement. This is a function of the much higher non-concessional cap relative to the concessional contributions cap and increased disposable income for older members.

Women begin to make significant personal contributions later than males. Females would benefit for adequacy reasons if the caps were higher for those over 50 years.

Graph 12 shows the split of average contributions by type, gender and age for those members who are not receiving employer contributions.

Graph 12. Split of average contributions by types, age and gender



The high average contributions at advanced ages indicate that many SMSF members are likely to be affected by the lower \$100,000 yearly non-concessional cap. Although the average by age is not necessarily indicative of a typical SMSF member’s contribution each year we can see that based on the graph above that members between the ages of 60 and 70 are making contributions which are closing on this cap.

For the 90th percentile (from the distribution of contributions), males between the ages of 60 and 75 and females between the ages of 55 and 75 are making contributions greater than \$100,000 per year. At the 95th percentile, this extends back to age 50 for both males and females.

Additionally, we note that members who have a balance of greater than \$1.6 million will be unable to make non-concessional contributions at all under the proposed legislation.