ASIC

Australian Securities & Investments Commission

REPORT 576

Member experiences with self-managed superannuation funds

June 2018

About this report

This report gives a comprehensive overview of research commissioned by ASIC into the experiences Australians have when setting up and running self-managed superannuation funds (SMSFs).

The research was conducted by an independent market research agency, and was a mix of qualitative research (interviews) and quantitative research (online survey) to explore member experiences with SMSFs.

> Note: In conjunction with the member research, ASIC reviewed 250 files where personal advice to set up an SMSF was provided to clients by a financial adviser. For details of this advice review with a summary of the member research, see Report 575 *SMSFs: Improving the quality of advice and member experiences* (REP 575).

About ASIC regulatory documents

In administering legislation ASIC issues the following types of regulatory documents.

Consultation papers: seek feedback from stakeholders on matters ASIC is considering, such as proposed relief or proposed regulatory guidance.

Regulatory guides: give guidance to regulated entities by:

- explaining when and how ASIC will exercise specific powers under legislation (primarily the Corporations Act)
- explaining how ASIC interprets the law
- describing the principles underlying ASIC's approach
- giving practical guidance (e.g. describing the steps of a process such as applying for a licence or giving practical examples of how regulated entities may decide to meet their obligations).

Information sheets: provide concise guidance on a specific process or compliance issue or an overview of detailed guidance.

Reports: describe ASIC compliance or relief activity or the results of a research project.

Acknowledgement

ASIC would like to thank all the members who participated in the research. We are grateful for the time they provided, which has given us a richer understanding of member experiences in setting up and running an SMSF.

Disclaimer

This report does not constitute legal advice. We encourage you to seek your own professional advice to find out how the Corporations Act and other applicable laws apply to you, as it is your responsibility to determine your obligations.

Examples in this report are purely for illustration; they are not exhaustive and are not intended to impose or imply particular rules or requirements.

Contents

Executive summary

The increasing use of SMSFs by consumers

1 Since their official introduction in 1999, self-managed superannuation funds (SMSFs) have grown from a niche product to the largest component of the superannuation sector in both number and asset size.

2 Today, more than 590,000 SMSFs hold assets worth nearly $697 billion.

3 Gaining control over their investments and superannuation is a key motivation for consumers in setting up an SMSF. In recent years, there has also been a growing interest in using SMSFs as a vehicle for investing in property.

4 The decision to set up an SMSF is one of the most significant steps a consumer can take in relation to their retirement savings. Unlike larger superannuation funds, SMSFs are not prudentially regulated by the Australian Prudential Regulation Authority (APRA).

5 Given the continued strong growth of the SMSF sector and regulatory changes in this area, ASIC undertook research into member experiences in setting up and running an SMSF (member research), in conjunction with a review of 250 financial advice files where personal advice to set up an SMSF was provided to clients by a financial adviser (advice review).

6 The findings from the member research and the advice review are summarised in Report 575 *SMSFs: Improving the quality of advice and member experiences* (REP 575).

7 This report provides more detailed information about the member research.

About the member research

8 In March 2017, ASIC commissioned an independent market research agency to explore why members had set up an SMSF and their experiences in running their SMSF.

9 The research was a mix of qualitative research (interviews) and quantitative research (online survey).

10 The market research agency conducted 28 ethnographic interviews in Sydney and Melbourne in mid-2017. The participants included:

(a) 10 new members (i.e. members who had set up an SMSF in the preceding 12 months after receiving personal advice); and

(b) 18 established members (i.e. members who had set up an SMSF in the preceding 12 to 36 months after receiving personal advice).

11 The market research agency also conducted a 10-minute online survey between June and July 2017 with 457 members who had set up an SMSF in the preceding five years. This included:

(a) new members (i.e. members who had set up an SMSF in the preceding 12 months); and

(b) established members (i.e. members who had set up an SMSF in the preceding 12 to 60 months).

Key findings

Motivations for setting up an SMSF

12 Family members and friends or colleagues were collectively the main prompts for setting up an SMSF, followed by advice from financial advisers and accountants. ‘Property one-stop shops’, real estate agents and cold calls were also prompts for setting up an SMSF.

Note: While the online survey used the terms ‘financial planners’ and ‘property group advisers’, in this report, we use the terms ‘financial advisers’ or ‘advice providers’ and ‘property one-stop shops’.

13 Members had a number of motivations, in some cases overlapping, for setting up an SMSF. For many members, setting up an SMSF allowed them to get out of an APRA-regulated superannuation fund (APRA-regulated fund) and gain control over their superannuation.

14 For some members, ‘control’ meant investing their superannuation in property. However, for other members, an SMSF was primarily a vehicle for investing in property itself, with little regard for superannuation as a form of retirement income.

15 In the interviews, there was a widely held view among members that property was a safe and well-performing investment. In many cases, property was the only investment members required their SMSF to contain.

Seeking advice on SMSFs

16 Members received advice from a range of sources. Often the people providing advice were already known to members or were recommended by family and friends.

17 There were few examples of members actively seeking to check the credentials of the people they received advice from. Evaluation of advice was often described in terms of ‘gut feel’. Consistent with findings in other consumer research commissioned by ASIC, the member research also found limited use and understanding by members of disclosure documents such as Statements of Advice (SOAs).

18 Property one-stop shops were used by a number of members to set up an SMSF. Property one-stop-shops generally made contact by cold calling or by having already helped the member to buy a property before recommending that the member set up an SMSF to buy a second or third property. Trust was established through testimonials, referral programs or special events providing opportunities to network with 'like-minded' people.

19 The convenience of property one-stop shops appeared to outweigh any concerns and at times even consideration about conflicts of interest that the inter-related parties may have had.

Member experiences in running an SMSF

20 In the online survey, 32% of members found running their SMSF to be more costly than expected (compared with 9% of members who found it less costly than expected) and 38% of members found running their SMSF to be more time consuming than expected (compared with 15% of members who found it less time consuming than expected).

21 Many members lacked a basic understanding of their SMSF and their legal obligations as SMSF trustees. For example, in the online survey:

(a) 33% of members did not know that an SMSF must have an investment strategy;

(b) 30% of members had no arrangements in place for their SMSF if something happened to them;

(c) 29% of members thought they were entitled to compensation in the event of theft and fraud involving the SMSF; and

(d) 19% of members did not consider their insurance needs when setting up an SMSF.

Investment choice and monitoring

22 The most common asset classes members invested in were shares and property, followed by managed funds and term deposits. Some members had not yet made any investments. Other members had little awareness of the investments in their SMSF or how these investments were performing.

23 Members generally had a poor understanding of the concept and benefits of investment diversification, which is consistent with findings in other consumer research commissioned by ASIC.

A About the member research

Key points

We commissioned an independent market research agency to explore member experiences when setting up and running an SMSF.

The research involved:

- 28 interviews in Sydney and Melbourne with members who had set up an SMSF in the preceding three years (qualitative research); and
- a 10-minute online survey with 457 members who had set up an SMSF in the preceding five years (quantitative research).

Scope of the research

24 In March 2017, ASIC commissioned an independent market research agency, to explore member experiences with SMSFs. The research was a mix of qualitative research (interviews) and quantitative research (online survey).

25 Participation in the interviews was limited to members over 18 years who had set up their SMSF in the preceding three years and had paid for personal advice in setting up and/or running their SMSF. This included:

(a) 10 new members (i.e. members who had set up an SMSF in the preceding 12 months after receiving personal advice); and

(b) 18 established members (i.e. members who had set up an SMSF in the preceding 12 to 36 months after receiving personal advice).

26 The quotes in this report are taken directly from the interviews. Some quotes have been edited for clarity and conciseness. All quotes are anonymised.

27 Participation in the online survey was limited to members aged 18 to 65 years who had set up their SMSF in the preceding five years. This included:

(a) new members (i.e. members who had set up an SMSF in the preceding 12 months); and

(b) established members (i.e. members who had set up an SMSF in the preceding 12 to 60 months).

Note: For more details about the sources and demographics of the research sample, see Appendix 1.

Objectives of the research

28 In undertaking the research, ASIC was interested in the reasons members had set up their SMSFs and their experiences doing so—in particular, the role of paid and unpaid advice in setting up and running an SMSF.

29 The research explored the following broad themes:

(a) the reasons members set up an SMSF, including the prompts and the motivations that influenced members to set up an SMSF;

(b) member experiences in seeking advice on SMSFs, including sources of information and advice, how members chose an advice provider, and whether they read and understood the SOA given to them by the provider; and

(c) member expectations and experiences in running an SMSF, including costs and time required to set up and run an SMSF, complexity of running an SMSF, investment choice and monitoring, their understanding of SMSFs, and their legal obligations as SMSF trustees.

Methodology

30 The market research agency conducted all stages of the member research, including both qualitative and quantitative.

31 Both stages of the research were deliberately based on members' subjective accounts of their experiences in setting up and running an SMSF (i.e. 'self-reported data') to capture the experience from the member's point of view.

32 The qualitative research involved 28 ethnographic interviews in Sydney and Melbourne between May and June 2017. The participants were sourced through an independent market research panel and consisted of 10 new members and 18 established members.

Note: For the list of questions in the discussion guide, see Appendix 2.

33 The quantitative research involved a 10-minute online survey between June and July 2017 with 457 members who set up an SMSF in the preceding five years. This included 261 participants sourced through the Australian Tax Office (ATO) and 196 participants sourced through a market research panel.

Note: For the list of questions in the online survey, see Appendix 3.

34 The margin of error on the total sample size of n=457 is +/-4.5% at the 95% confidence level, differences of +/-1% for net scores are due to rounding.

Limitations

35 All research has constraints and limitations. Some of the limitations identified in the member research include:

(a) an over-representation of members who recently opened an SMSF and members based in Sydney and Melbourne; and

(b) standard trade-offs associated with self-reported data (e.g. subjective accounts reported by real people provide valuable and rich insights of the experience from their perspective but can also be subject to a range of biases such as hindsight bias and social desirability bias).

Note: For a more detailed explanation of these limitations, see Appendix 1.

B Motivations for setting up an SMSF

Key points

Family members and friends or colleagues, financial advisers and accountants were most commonly reported to have prompted members to think about setting up their SMSF.

Motivations for setting up an SMSF included a desire for control over superannuation decisions and a preference to leave an APRA-regulated fund.

A number of members saw an SMSF as a vehicle for investing in property. This was generally driven by a belief that property was an inherently better investment than other asset classes.

Prompts for setting up an SMSF

36 In the online survey, when asked what prompted them to set up an SMSF, some members stated there were multiple prompts, while others stated just one: see Figure 1.

37 In the survey, the most frequently stated prompts were:

(a) family members (16% new members, 32% established members);

(b) financial advisers (28% new members, 30% established members);

(c) friends/colleagues (25% new members, 26% established members); and

(d) accountants (23% new members, 25% established members).

Note: While the online survey used the term ‘financial planners’ and ‘property group advisers’, in this report, we refer to these entities as ‘financial advisers’ or ‘advice providers’ and ‘property one-stop shops’.

38 Magazines and newspapers played a more significant role for new members (7%) compared with established members (1%).

39 Of particular interest, in light of the findings in the interviews, other prompts included:

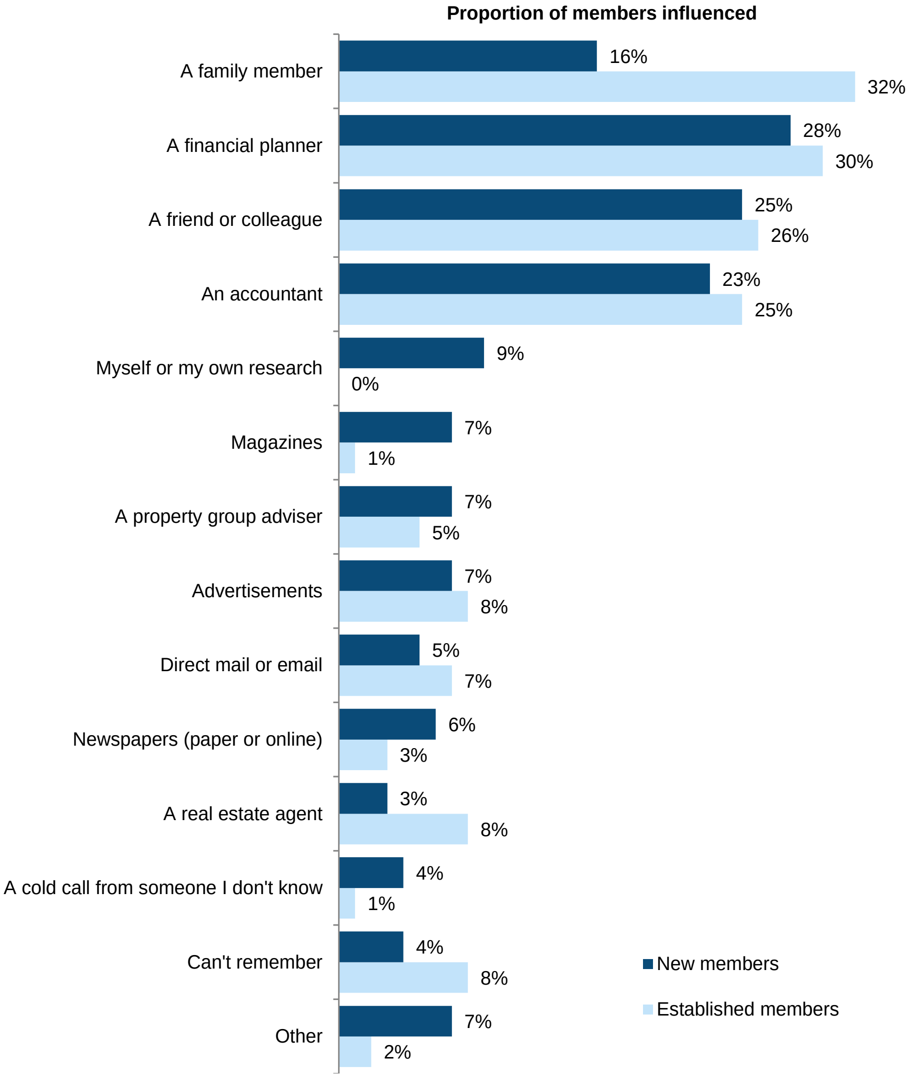
(a) property one-stop shops (7% new members, 5% established members);

(b) real estate agents (3% new members, 8% established members); and

(c) cold calls (4% new members, 1% established members).

40 Nearly one in ten new members (9%) stated it was themselves or their own research which prompted them to think about setting up an SMSF.

Figure 1: Prompts for setting up an SMSF, online survey (%)



Note 1: See Table 6 in Appendix 4 for the underlying data shown in this figure (accessible version).

Note 2: Base: 457; Question B1. Did any of the [following] prompt you to think about establishing an SMSF?

Note 3: Totals do not add up to 100% as the question is a multiple response.

Note 4: In Figure 1–3 and Figure 6, 'new members' are members who set up their SMSF in the preceding 12 months and 'established members' are members who set up their SMSF in the preceding 12 to 60 months.

41 These prompts were also commonly reported in the interviews.

42 In the interviews, some members said they knew very little about SMSFs until the idea was mentioned by someone else. However, some members said they were familiar with SMSFs as a result of working in finance, or having discussed SMSFs with friends, family or colleagues over a number of years.

43 Some members reported that they were advised by a property one-stop shop to buy additional properties through an SMSF after having already bought a property in their own name through the same group. Other members said they had accepted 'tax advice' from one of these groups which led to

recommendations to open an SMSF. In some cases, the prompt was discussion of an investment property, with setting up an SMSF suggested to make the purchase possible.

Note: For a further discussion of property one-stop shops, see paragraphs 113–136.

Reasons for setting up an SMSF

44 In the interviews, members reported a number of reasons for setting up their SMSF. Some members actively sought to set up an SMSF while some responded to a recommendation made by an external party.

45 Often the reasons for setting up their SMSF overlapped.

46 A commonly mentioned reason was a desire to have control over investments. For established members in particular, the desire for control was coupled with a dissatisfaction with APRA-regulated funds. Both new and established members were also motivated by a desire to use an SMSF as a vehicle through which to invest in property.

Desire for control

47 In the interviews, the desire to have control over investments was a key motivation in setting up an SMSF for both new and established members. For many of the members who decided to set up an SMSF, access to their superannuation meant greater control over how it was invested.

48 These members wanted to be the main decision-maker when it came to their superannuation. Many members expressed a view that they would make better investment choices than those made by their APRA-regulated fund.

49 However, as discussed later in this report, many members also liked to be the final decision-maker after taking into consideration advice from people they perceived to have financial expertise.

> ‘You’ve got more control with [an] SMSF because it’s yours. You’re the boss and you know exactly where it goes and what you’re investing in.’ (New member, Bernard, Melbourne)
>
> ‘I get to say where my money is going and what it does as opposed to some big huge institution sending something out twice a year that really doesn’t make any sense to you, so I guess it’s that I’m actively deciding on what my money is going to do probably the most influencing for me … ‘ (Established member, Nancy, Melbourne)
>
> ‘People find they are in their investments but you are not in control of it and you are not as hands on and it is their investment that they chose for you. [There] are often funds where you can have a say in it but it is never 100% your choice.’ (New member, Jane, Sydney)

50 In the interviews, many members spoke about a desire to get access to something that was locked away from them. Among some members, this was expressed as access to *their* money to do with what they wish.

> 'Here I am, my hands are tied in chains and I am just looking at it. This is what I think the super is at the moment … This is a big safe and there is my hard earned money hundreds of thousands of dollars sitting there, and there is a big lock on it.' (New member, Rashpal, Sydney)
>
> 'It is wonderful that we have got such a great super system in this country, but prior it was untouchable until you are retired and there was nothing you do with it and you had to wait until then. The fact now that you can use that to invest or do things your comfort in your retirement just makes it that much better. It just really increases investment opportunities for Australians. It is a great way of doing it.' (New member, Jane, Sydney)

51 For some members, investing their superannuation as they wished was explicitly linked to thinking ahead to future needs.

> 'To be in control of how you invest your money even though you can't touch it now, you are still in control [of] how you invest it so you can increase it for the future when you can use it.' (New member, Jane, Sydney)
>
> 'I am in charge of my own destiny, so that is how I feel when it comes to superannuation and not being drip fed by a pension.' (New member, Rebecca, Sydney)

52 One member expressed an interest in ethical investments, driven by rising social awareness, and the emergence of sustainable resources to invest in. This resulted in wanting to have a say on where their money was invested.

> 'We [wanted] something a bit more ethical in some of the investments that we have. We would be … saying 'under no circumstances are you to put any of our money in anything that has to do with that' so for us, that is where it gives us that choice … ' (Established member, Jacob, Melbourne)

Dissatisfaction with APRA-regulated funds

53 Many members expressed dissatisfaction with APRA-regulated funds. This was the case for both new and established members, but was more common among established members.

54 For established members in particular, the desire for control was coupled with a dissatisfaction with APRA-regulated funds, including:

(a) fear of not having enough money in retirement;

(b) perceptions that APRA-regulated funds do not prioritise the interests of their members;

(c) dissatisfaction with the investment choices offered by APRA-regulated funds;

(d) concern over the exposure of APRA-regulated funds to the stock market;

(e) a perceived lack of transparency in APRA-regulated funds; and

(f) perceived high fees and stagnant growth within APRA-regulated funds.

Fear of not having enough money in retirement

55 Some members set up an SMSF because they wanted to continue their current living standards when they retired and their projected retirement income was perceived to be too low. They left an APRA-regulated fund as they did not expect it to generate enough wealth to live off in retirement.

> 'If I embark on buying a property through [an] SMSF I will have a far greater chance of replacing close to my current income in retirement.' (New member, Rebecca, Sydney)

56 Some members also expressed a fear of having to continue working to retain their lifestyle. This concern led them to want to take greater control over the investment decisions that would affect their final retirement income.

> 'You don't know if it is going to be there and what is going to happen when we get to that age … My dad had to go back to work … He was 59 years old and was doing deliveries for a local shop because they had no money left. It wasn't enough [and] they had to really learn how to live again.' (New member, Claire, Melbourne)
>
> 'If I didn't do anything … I would probably not be able to retire. I would work until the day I died. I'd work because I have to not because I love it.' (Established member, Robert, Sydney)

57 For some members, the preference for a certain retirement income meant making their own decisions on how to invest their superannuation.

> '[I had] a realisation that I couldn't just sit on my hands and wait for it to happen organically, I would need to do something myself.' (Established member, Robert, Sydney)

58 A number of members also believed they would not be entitled to the pension. Taking control and setting up an SMSF was a way to have more money in retirement.

> 'I guess there is no guarantee there is going to be a pension or anything by time we get to that age. It is still quite a fair time away for me but [in] the future you are still going to need to survive and pay bills and eat.' (New member, Claire, Melbourne)
>
> 'I can't see myself getting a pension, so it's something that I'm going to have to self-fund … . I won't meet the criteria to get a pension.' (New member, Bernard, Melbourne)
>
> 'We won't be eligible for the pension so you have to look after yourself.' (Established member, Cindy, Sydney)

59 A few members saw receiving the pension as relying on the Government. These members did not want to have to rely on the Government to support them in retirement.

> 'I hope that we are able to live the same way we have … Going on some holidays, living where we want to live and not having to rely on the government to support us.' (Established member, Cindy, Sydney)

> 'I don't rely on other people and if you were to go on the pension, I think that is relying on the government … I don't know how much they get, it seems very low, and less and less so why have someone else be in charge of your future. It is just stupid.' (New member, Rebecca, Sydney)

Perceptions that APRA-regulated funds do not prioritise members' interests

60 Some members said they left an APRA-regulated fund because they thought that these funds put their own interests above their members' interests.

61 The perceived lack of prioritisation of members' interests was indicated by the view held by many members that in an APRA-regulated fund you are just 'one of a crowd'. In their view, being in a large APRA-regulated fund meant they were just a number.

> 'You're a very little number for them, they don't care about you.' (Established member, Rick, Sydney)
>
> '[With an SMSF] you are not just a number.' (New member, Claire, Melbourne)

62 One member expressed frustration that even if an APRA-regulated fund performed poorly, the fund's employees were paid from 'their' money.

> 'They take your money and they do what they want with it and if they lose something, they take their cut anyway.' (Established member, Gregory, Sydney)

Dissatisfaction with investment choices offered by APRA-regulated funds

63 Some members expressed a dislike for what they perceived to be a 'one-size-fits-all' approach in large APRA-regulated funds. Some members also expressed frustration at the inability to individualise their superannuation strategy while in these funds.

64 Many of these members believed that the investment strategies in APRA-regulated funds could not be tailored, or had limited tailoring, to meet their investment preferences.

> 'Everyone's circumstances are different … A one-size-fits-all approach [is] dangerous. Whereas if it's tailored more specifically to your needs—your wants and desires, your future plans—then you'll end up with a happier outcome.' (Established member, Robert, Sydney)

65 Members seemed to be unaware that some APRA-regulated funds offer a 'do-it-yourself' (DIY) option where members can choose to direct part of their retirement savings towards assets such as shares, exchange-traded funds and term deposits.

> '[With an SMSF] you seem to have more control of your investments … with the super fund the only thing you can really agree on is whether you want to go aggressive growth, balanced or safe, safe being cash.' (Established member, Renae, Sydney)

Concern over the exposure of APRA-regulated funds to the stock market

66 Some members were concerned about the exposure of an APRA-regulated fund to the stock market. The stock market was described as ‘high risk’, ‘speculative’ and ‘difficult to understand’. These members expressed a preference not to have their retirement savings invested in the stock market.

> ‘The share market is purely gamble, it is so speculative … You always lose long term. It is just not stable enough.’ (Established member, Rick, Sydney)
>
> ‘I am not a huge fan of shares and portfolios and things like that so I’m not about to put my money into anything high risk because I’ve worked hard and I’m a little bit cautious when it comes to that.’ (Established member, Nancy, Melbourne)
>
> ‘I do not know enough about shares and I know that some people like my dad, do really well in it, I know some people don’t. I am not willing to take that chance with it.’ (Established member, Felicity, Sydney)
>
> ‘I don’t know anything about shares and I don’t want to do that. It’s a risk.’ (Established member, Victor, Sydney)

67 Market instability exacerbated some members’ feelings of loss of control, with global forces appearing to have tangible impacts on the individual. The share market and the world in general were perceived as volatile, with many members unsure about the security and stability of money in the markets.

68 This fuelled some people’s desire for what they perceived to be tangible investments rather than stocks (e.g. ‘bricks and mortar’, cash, art and bullion).

> ‘When you have all your super funds invested in things that are around the US dollar, and on the stock market, it is at risk, so the only way I could do what I wanted to do was do it myself.’ (Established member, Gregory, Sydney)
>
> ‘Where people did have a lot of money in the share market and they were two or three years away from retirement and the boom, it drops and then everyone lost so much money and because they are at that age where they are not [able to] work for another 10 or 15 years to build it back up, so sometimes it is not as comfortable as property.’ (Established member, Jacob, Melbourne)

69 Some members had personally experienced investment loss in the global financial crisis (GFC) or had seen their parents’ superannuation decrease dramatically during this time.

> ‘I used to heavily invest into the share market [but] had some losses when the GFC [happened] so I pulled all from the share market so nothing more in the share market anymore.’ (Established member, Rick, Sydney)
>
> ‘I had a retail super fund [during the GFC, then] prices dropped [by] half over night and [I was] still pouring money [into my] work super. Share prices [were] $3.60 and [went down to] $1.70 and [I was] still putting in the same amount of money in. Now I keep an eye on what is happening.’ (Established member, Luke, Sydney)

> 'We don't have any shares at all so we're not dependent on the share market dropping or any massive worldwide events that might have an immediate impact.' (Established member, Nancy, Melbourne)
>
> 'I suppose you look at things like the GFC happening and … you shouldn't have your money in stuff that's volatile … I don't know much about shares but I just look at it and I think god if you were ready to retire and you did have your money in shares you've lost half your money and that's it. Whereas you have your money in a house … you haven't ever lost the value of half the house.' (Established member, Monica, Melbourne)

Perceived lack of transparency in APRA-regulated funds

70 Some members thought there was little transparency in APRA-regulated funds, particularly for investment allocation, and that the fund kept them 'in the dark'.

> 'I called them up and said "Can you tell me what shares I have got" and they said "We can't tell you that", "I have a right to know where my money is invested", "No sir, you have money invested in the trust". I couldn't believe it. I wanted a change.' (Established member, Luke, Sydney)

Perceived high fees and stagnant growth within APRA-regulated funds

71 Some members expressed a feeling of having been 'ripped off' by their APRA-regulated fund. This was associated with being part of a broader system where they could not get access to, and control over, what they considered to be their own money.

> 'I feel that we are being ripped off by the government who has this whole set up and we are being ripped off by the big superannuation companies, big rip off.' (New member, Rashpal, Sydney)

72 One member stated that their returns appeared to be lower than expected, which triggered a decision to make their own investment choices. Another member said their balance did not appear to be increasing despite their continuing contributions.

> 'We started looking at what the returns were with the companies that we were with and I don't recall who we were with and we were just looking at what the returns were and how much money we were paying to be in the fund and what they were investing in and it wasn't anything exciting and I said to hubby "Let's do our own super fund and look at investing."' (Established member, Felicity, Sydney)
>
> 'When you do contributions and stuff and at the end of the day rather than going up it always kept going down and down.' (Established member, Rick, Sydney)

Desire to invest in property

73 Many new and established members were motivated by a desire to use an SMSF as a vehicle for investing in property. This was driven by factors such as:

(a) perceived strengths of the property market;

(b) a perception that property was a safe and reliable asset class;

(c) a fear of being locked out of the property market; and

(d) a desire to increase their property portfolio.

74 In the interviews, both new and established members expressed a strong desire to invest in property. Many of these members described property as a safe, stable investment and perceived it to have better returns than other types of investments. Other members said SMSFs offered a solution for them to grow their property portfolio.

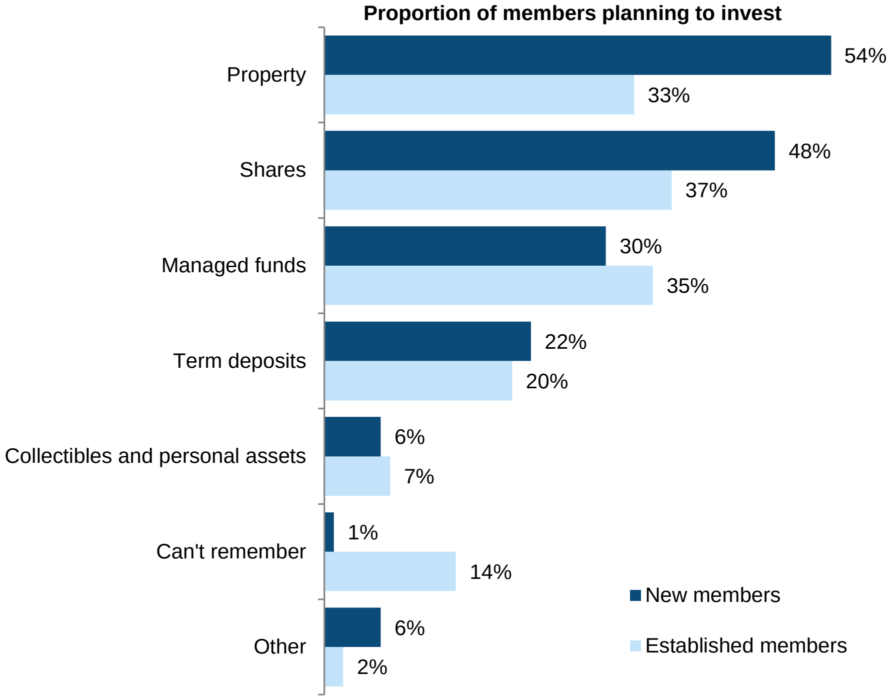
75 This was also the case in the online survey: see Figure 2. In the online survey, the most popular assets members planned to invest in were:

(a) property (54% new members, 33% established members);

(b) shares (48% new members, 37% established members); and

(c) managed funds (30% new members, 35% established members).

Figure 2: What members planned to invest in, online survey (%)



Note 1: See Table 7 in Appendix 4 for the underlying data shown in this figure (accessible version).

Note 2: Base: 457; Question B6. When you first set up your SMSF, which of the following did you plan to invest in?

Note 3: Totals do not add up to 100% as the question is a multiple response.

Perceived strengths of the property market

76 Many of the members who invested in property were influenced by how well the property market had performed in the previous decade.

> 'I've always looked at cost and I was probably a bit short sighted and we didn't know where the property market was going to … if we'd known what the property market was going to do when we bought here we would have mortgaged to the hilt and we would have bought as many properties as we could and sold them 20 years later and have retired and been on a yacht to somewhere.' (Established member, Monica, Melbourne)

77 Some members expressed a view that property investment would outperform superannuation.

> 'It was Host Plus, it performed well, I think, I like to think that my new one [invested in property] is going to do much better.' (Established member, Nancy, Melbourne)

78 Other members viewed property as a liquid investment.

> 'If we were in a dire financial position we could certainly sell off an investment property and still make a profit so I guess in my mind that's what makes it a low risk.' (Established member, Nancy, Melbourne)

Property perceived as a safe and reliable asset class

79 Many members considered property investment as a safe investment. They described it as the 'safest bet' and 'rock solid'.

> 'In Australia, everyone knows that if you want to do well in your life you need to invest in a property, it's your safe bricks and mortar. It's a physical thing, steady growth.' (Established member, Cindy, Sydney)
>
> 'The physical aspect of it, bricks and mortar, at the same time at least you have something physical that you can hold onto.' (Established member, Rick, Sydney)

80 For many members, investing in property equated to stability and growth.

> 'It was more about income and stability … Financial stability as opposed to relying on government money because if you have property that is mortgage free and you are collecting rent from it, you will basically know, I will get $200 a week from that and you know that, it is stable where the pension I guess there will be an amount but depending on the government I think it varies.' (New member, Rebecca, Sydney)
>
> 'The property is more stable and you know it's there and you're always going to get rent if you buy in a good area. It will probably drop a little bit, but it will eventually go up.' (New member, Bernard, Melbourne)

Fear of being locked out of the property market

81 For members who had seen property prices increase, particularly in Sydney and Melbourne, an SMSF became a vehicle to start investing in the property market. The surge in property prices created a sense of urgency driven by a fear of missing out.

> 'If you can try and get on the ladder, it can open up some options with equity or redrawing, it can just give you some more options in life.' (Established member, Cleo, Melbourne)

82 This sense of urgency was also felt by members who were parents. Some parents expressed a fear that their children might one day miss out on the opportunity to own their own home. For these members, their anxieties about their own future appeared to be secondary to the stress of being unable to provide a secure future for their children.

> 'We're concerned that the kids are not going to be able to buy a house to live in when they grow up and we thought that if we took the risk and did it that we would be able to set them up for the future, as well as ourselves.' (New member, Lily, Sydney)
>
> 'I don't want to have to rely on my kids looking after us, which we do for mum now. Both of them to get through the winter. I am one of six kids so it is up to us to help them and get through their winter bills and stuff.' (New member, Claire, Melbourne)

Increasing their property portfolio

83 Some members already owned multiple properties in their own name and investing through an SMSF was seen as a good way to grow their portfolio.

84 Other members had already bought properties outside an SMSF and had heard that buying property through an SMSF would be more tax effective.

85 These experiences are explored in more detail in Case study 1.

Case study 1: New member, Jane, Sydney

Jane and her partner already had two properties, including the one they lived in, and recently started an SMSF to buy another investment property. They had previously tried to buy another investment property without an SMSF but were unable to get a bank loan due to increasing property prices.

> 'We wanted to increase our property portfolio and I heard about the SMSF … We saw a window to increase not only our property portfolio but also our possible superannuation for retirement.'

Like many members, Jane was also motivated to have more control over her superannuation, particularly after she noticed that her investment returns had dropped. She first heard about an SMSF through her brother-in-law.

She thought the main benefit was how quickly a property could be paid off.

> 'You purchase a property for half a million dollars and then not only do you have your superannuation from your work coming in paying off that property but you have also got the rental income paying it off so essentially it means you can pay twice as much off a mortgage. Which means you can pay the property off in less than half the time and from my calculations … you could potentially make half a million dollars in 15 years whereas there is no way you could make that just in super.'

She planned to buy another property or two through the SMSF.

> 'In 15 years, I am still only going to be 50. I will still have another 15 years so I can purchase a second one and maybe even a third one.'

C Seeking advice on SMSFs

Key points

Financial advisers were the most commonly used source of advice when setting up an SMSF according to the results of the online survey.

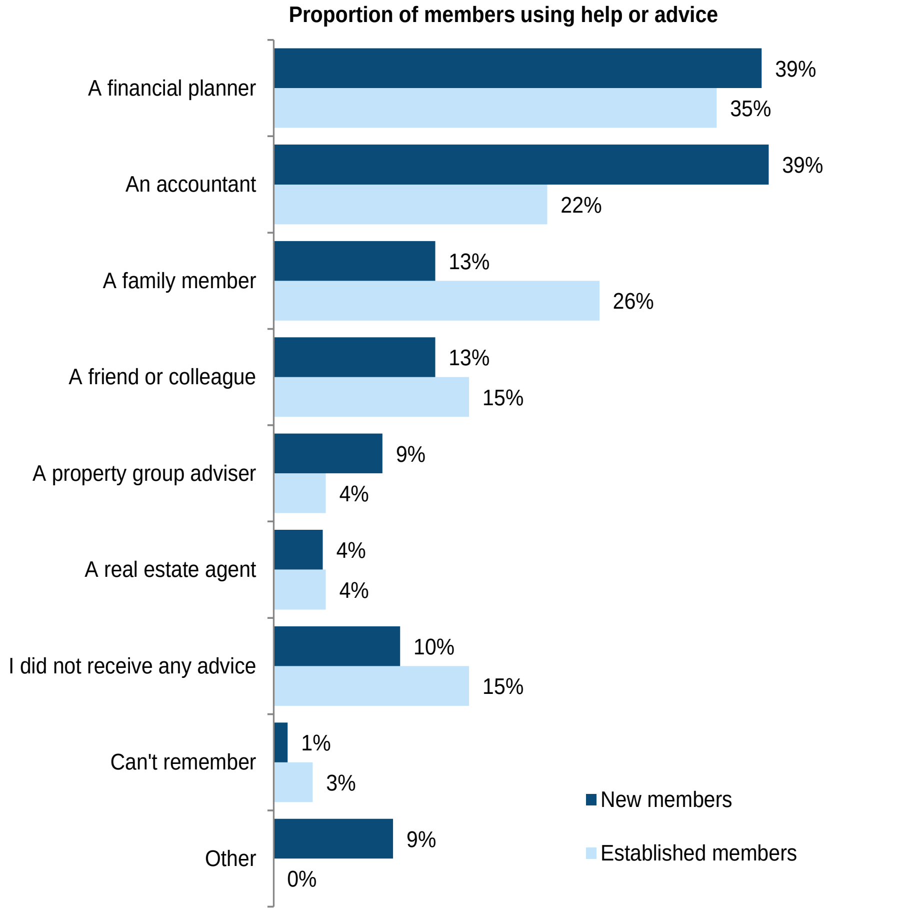
Both the survey and interviews indicated that many members did not distinguish between licensed financial advice and unlicensed financial advice. Advice from anyone perceived to have financial expertise was considered financial advice.

The use of property-one-stop shops as a source of advice has been increasing. Members who set up an SMSF with the assistance of property one-stop shops only invested in property.

Sources of information and advice

86 Members drew on various sources of advice in setting up their SMSF: see Figure 3.

Figure 3: Use of external help/advice in setting up an SMSF, online survey (%)



Note 1: See Table 8 in Appendix 4 for the underlying data shown in this figure (accessible version).

Note 2: Base: 457; Question B2a. Did you receive help or advice from any of the following when setting up your SMSF? (Yes, to establish the SMSF)

Note 3: Totals do not add up to 100% as the question is a multiple response.

87 For new members, financial advisers and accountants were the main source of help or advice for setting up an SMSF (39% each). Financial advisers were also the most common source of help or advice for established members (35%), followed by family members (26%).

88 New members were more likely than established members to report using property one-stop shops when setting up an SMSF. Only 4% of established members stated they received help or advice from a property one-stop shop when setting up their SMSF, compared with 9% of new members.

Choice and use of 'financial experts'

89 In the interviews, members' choice of a 'financial expert' for help in setting up and/or running an SMSF was often based on a personal recommendation by a family member, friend or colleague.

90 Members also chose their 'financial expert' based on a feeling of trusting them. Trust was generated through the financial expert's communication skills, likeability and apparent financial knowledge.

Recommendation by friend, family or colleague

91 Members who chose a 'financial expert' on the recommendation of a family member, friend or colleague saw the recommendation as a 'stamp of approval'. For some members, this removed the need for them to do any further research or background checks.

> 'My sister and her husband probably influenced me a lot … They started buying other properties and then my brother-in law started an SMSF as well and that is how I learnt about it … He said it is one of the best things he has ever done and he highly recommended it. His accountant was able to set one up [for me].' (New member, Jane, Sydney)
>
> 'My brother had started up his own business prior to us and we asked him who he used and my brother held this person in high regard and said he was really wonderful … .We really like him.' (Established member, Felicity, Sydney)
>
> 'He was recommended so we felt very comfortable, he has proven himself. We know that we can rely on him. We are really satisfied with him. [We did] limited checking of credentials.' (Established member, Jacob, Melbourne)
>
> 'Well, our accountant is actually a friend as well so she's the one that sort of convinced us to go with an SMSF … ' (Established member, Brandon, Melbourne)

Trust in 'financial experts'

92 Members looked for 'experts' they felt they could trust. Trust was often expressed in terms of the expert being 'real', not a 'salesman'.

93 Added trust was gained when the expert offered free advice and provided tailored options. For many, judgment of the value of the advice was made on

'gut feel'. Trust was also built on the feeling that the adviser was looking out for them.

> 'He was very polite. He was answering my questions … I can judge people quite quickly. He didn't appear to be trying to get money out of me … It is very hard to get a financial planner to come and talk to you for free.' (New member, Rashpal, Sydney)
>
> 'We ended up having a connection in that we actually went to the same school … I said, 'well obviously, he comes from good stock' and I felt comfortable to make a decision.' (New member, Rebecca, Sydney)
>
> 'We really liked him … Not having my father he would ask questions and he would care for us like he was our father.' (Established member, Felicity, Sydney)

Credential checks

94 In the interviews, there were no unprompted mentions of members having checked the credentials of a 'financial expert' on ASIC's register (i.e. the financial advisers register) or of verifying their expertise or qualifications through a third party. In some cases, members did report having looked at the advice provider's website.

95 Of those members in the qualitative research who reported that they were cold called by a 'financial expert', some said they went online to check the legitimacy of the 'financial expert', but in most cases only their Australian Business Number (ABN) or their website was checked.

Heavy reliance on 'financial experts'

96 Many members relied on their 'financial experts' in setting up their fund, completing paperwork, making investment decisions and meeting the ATO's compliance requirements.

> 'I think some people that do [SMSFs], they do all the investing and selling, they track it all themselves and they do all the changes. I know that's something that I haven't got the skills to do, so I guess that's why we've got the finance companies.' (Established member, Paul, Melbourne)

97 A number of these members stated that all they had to do was sign documents and the rest of the work was left to the professionals.

> 'They spell out the process, you fill out the paperwork and you sign documents, you give it to them, they go away and they come back … and everything is set up.' (Established member, Jacob, Melbourne)
>
> 'I know that that's not the ideal for everyone but I don't think I realised how much paperwork was involved in setting up an SMSF and I could never do it on my own, not in a million years.' (Established member, Nancy, Melbourne)
>
> 'No, definitely wouldn't do it on my own. There's too much involved, there's too much red tape.' (Established member, Angus, Sydney)

98 Some members relied on their 'financial expert' to assist them with reporting on compliance to the ATO, fearing the consequences if they were to do anything incorrectly.

> 'The last thing you want to do is risk your super or get a fine from the ATO for doing the wrong thing … ' (New member, Jane, Sydney)
>
> 'Heaven forbid if you did something wrong honestly, that you didn't prepare the assets or you miscalculated the levies or the taxes, then you're in for it.' (Established member, Angus, Sydney)

99 Other members believed that having the assistance of a 'financial expert' would protect them from non-compliance: see paragraphs 162–165.

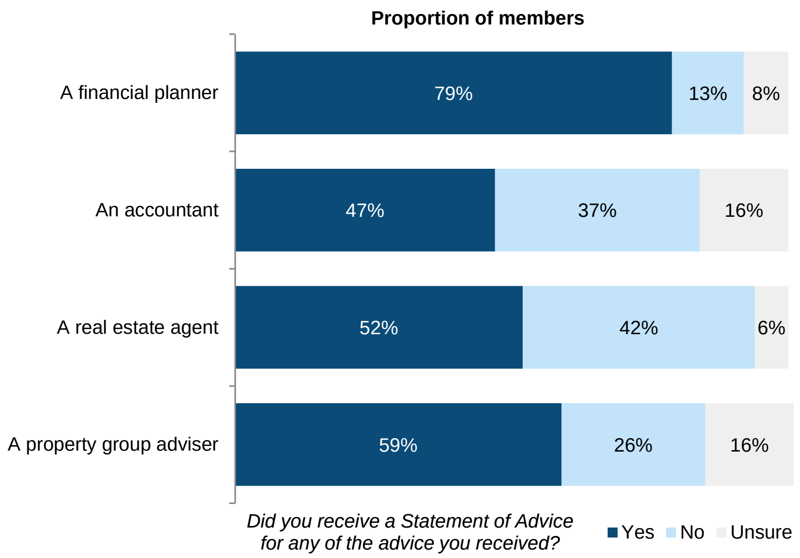
Understanding of disclosure documents

100 Financial advisers are required to provide clients with Statements of Advice (SOAs) when providing advice. SOAs are intended to help recipients of advice assess the advice they receive and decide whether to act on it.

101 Members appeared confused about SOAs. The confusion was evident in the online survey where some members stated they had received an SOA in situations where it was unlikely that an SOA would be provided. The interviews revealed limited engagement with SOAs and poor recollection of the contents.

102 In the online survey, most members (79%) who sought advice from a financial adviser reported having received an SOA: see Figure 4. Around half of those who received advice from accountants, property one-stop-shops or real estate agents also reported receiving an SOA from them.

Figure 4: Receipt of SOA, online survey (%)

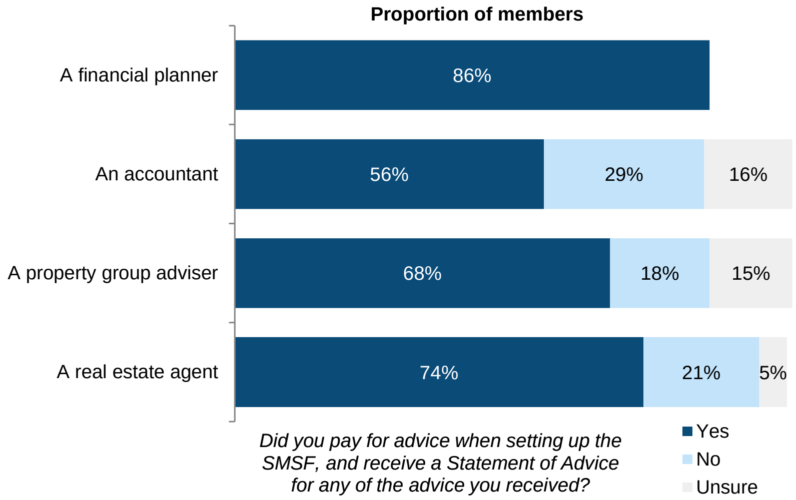


Note 1: See Table 9 in Appendix 4 for the underlying data shown in this figure (accessible version).

Note 2: Base: 457; Question B4. Did you receive a Statement of Advice for any of the advice you received?

103 Members who paid for advice were even more likely to say they received SOAs, including 74% of those who paid for advice from real estate agents: see Figure 5. This suggests there is confusion with what an SOA is, as real estate agents and property one-stop shops are unlikely to provide licensed financial advice requiring the provision of an SOA.

Figure 5: Receipt of SOA, members who paid for advice, online survey (%)



Note 1: See Table 10 in Appendix 4 for the underlying data shown in this figure (accessible version).

Note 2: Base: 457; Question B3. And did you pay for this advice when setting up the SMSF? Question B4. Did you receive a Statement of Advice for any of the advice you received?

104 In the interviews, many members reported receiving an SOA from their advice provider; however, most of them did not properly read it.

> 'I kind of looked at it. I flicked through it and I just couldn't find anything in there that was worth reading.' (New member, Lily, Sydney)
>
> 'I looked through it, but it's fairly above my head. I did have a look at it at the time. I didn't read it word for word, flipped through.' (New member, Beth, Melbourne)
>
> 'I think it had an outline of our situation and lots of numbers.' (Established member, Jacob, Melbourne)

105 If members did read the SOA, many said they did not understand it fully or could not remember much about it.

> 'Yes, it is all there for me. I think I am very smart, savvy, in choosing locations for the houses, but all the technical legal jargon, no I don't understand it at all and I don't need to understand it. Maybe I should try to have an understanding of it, I don't know, but I don't understand it and that is why I pay my accountant to work for me and that is why I found the process easy … ' (Established member, Felicity, Sydney)
>
> 'Because our lawyer sat through and read it with us I clearly remember that because that's important apparently so we did read it. We did go through it quite thoroughly with all the different parties that were involved in it [but I] probably couldn't tell you much about it now.' (Established member, Nancy, Melbourne)

106 One member initially appeared confident about the contents of the SOA, before re-reading it and discovering that their money was invested in a way that they did not expect.

> 'Maybe I didn't read every page. I don't know. I better ask him about that, it looks like they may be investing some of my money in shares, but that can't be right because I have to keep all my money to go towards the property so I will just check with them.' (New member, Rebecca, Sydney)

107 Among some members there was a perception that the SOA was merely a tool for limiting liability.

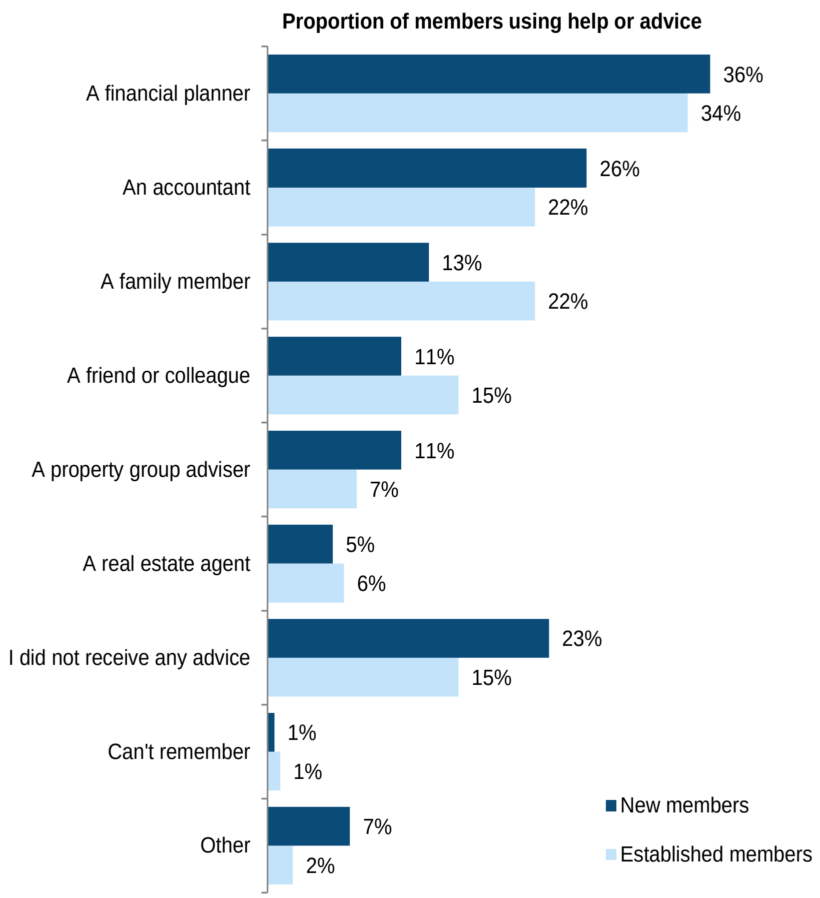
> 'There was the token statement that he had to provide to us, I couldn't tell you if we still have it … Pretty much a requirement of what he has to legally give us, a disclaimer of him acting as a tax agent and adviser.' (Established member, Robert, Sydney)

Advice on investment decisions

Sources of advice for investment decisions

108 Members used various sources of advice for investment decisions: see Figure 6.

Figure 6: Use of external help/advice in making investment decisions, online survey (%)



Note 1: See Table 11 in Appendix 4 for the underlying data shown in this figure (accessible version).

Note 2: Base: 457; Question B2b. Did you receive help or advice from any of the following when setting up your SMSF? (Yes, to decide where to invest).

Note 3: Totals do not add up to 100% as the question is a multiple response.

109 For both new and established members, the top three sources of advice for making investment decisions in an SMSF were:

(a) financial advisers (36% new members, 34% established members);

(b) accountants (26% new members, 22% established members); and

(c) family members (13% new members, 22% established members).

110 A number of members also received investment advice from a property one-stop shop (11% new members, 7% established members) or a real estate agent (5% new members, 6% established members).

Delegating decision making to 'financial experts'

111 In the interviews, many members delegated most of the decision making to 'financial experts'. This ranged from investment advice, to where to buy property and what type of property to buy. Knowing the 'basics' was sufficient knowledge for them when setting up the SMSF.

> 'I pay him to look after the fund and to offer me advice and for me to make the decision … What I expect is that if he sees it suddenly going down, down really fast, I expect a phone call saying I think we should pull it out of here … ' (Established member, Victor, Sydney)
>
> ' … We get advice with managing it. We have the final say but he helps and gives advice for that, recommendations and stuff … [The SMSF has] property, international equities, Australian equities, cash, international fixed interest, Australian fixed interest … ' (Established member, Cindy, Sydney)
>
> 'I know the basics. I know what the thresholds are, how much you can put in. What you can do with the money as a specific fund, that's where we need someone else's advice who specialises in it.' (Established member, Renae, Sydney)
>
> 'I feel that is a big decision and whether it is a little bit of money or a lot of money, it is your financial security and these people, that is their job and it is best to get advice from people that know because people like me that is just reading the paper, you only get bit of the story.' (Established member, Cindy, Sydney)

Reviewing advice from 'financial experts'

112 Among members, there was limited 'double-checking' of advice from 'financial experts' to ensure its legitimacy. Those members who did review the advice did so by visiting financial websites or did Google searches to clarify terms or reassure themselves that they had 'done their research'.

Use of property one-stop shops

113 In the interviews, it became clear that members who had used a property one-stop shop to set up and run their SMSF had quite different experiences to members who used a financial adviser or accountant. Many of these members reported that property one-stop-shops had used a sales approach to initiate setting up their SMSF, had provided access to a 'financial team' to assist them, and had made property-only recommendations for their SMSF.

114 Members who used property one-stop-shops expressed they had only made property investments within their SMSF with the only exception to this being some new members who said they had put their money in a high interest bank account while waiting for their off-the-plan properties to be built.

Cold calling as a means of establishing contact

115 A number of members that used a property one-stop shop reported setting up an SMSF after being cold called. While members said they exercised caution during the cold call, they also said that they were curious to know more after the representative mentioned that they could save money, pay off their mortgage sooner, or have more money in retirement.

116 A number of members reported the cold call was focused on tax advice.

> 'I think I got a telemarketing call and I got suckered in … it was all about tax reduction … I think they perhaps said things that weren't 100% accurate … It [was] about tax minimisation and growing wealth.' (Established member, Monica, Melbourne)
>
> 'In the end they all start with the same story about tax incentives but in the end they are all just trying to sell you properties of sorts.' (Established member, Jacob, Melbourne)
>
> '[After the cold call] it was funny because they came here to discuss wages and my husband was on quite a big wage at the time, and we discussed a way that we could obviously minimise tax and things like that and they said one of the best ways to minimise tax was to go into property.' (New member, Lily, Sydney)

117 For many members, their receptiveness to acting on a cold call came down to timing—that is, they had been thinking about setting themselves up for retirement or getting a foot into the property market.

> 'It was just like a friendly nudge.' (Established member, Paul, Melbourne)
>
> 'We were just at that point in our life where we were ready for it.' (Established member, Monica, Melbourne)

118 The cold call was usually followed by a presentation given to the member in their own home. In some cases, an SMSF was not mentioned in the first meeting; the focus instead was on property. The suggestion of buying property through an SMSF came either after the member had already bought one property, or later in the sales pitch.

> '[After the cold call] They came here, and he came here and he talked to us about it.' (Established member, Monica, Melbourne)

119 Some members mentioned that their details were passed on to these companies after they registered interest in buying properties. One member thought she was getting advice from a Government employee.

> 'She said she was through the Australian Government and she said it was to help and did you want to learn ways of reducing your tax. I thought it was just like a cold call … Every couple of months she would call back … [She asked] where did we want to go, what we wanted to do with our money … and then she was talking to us about investment properties and that is where we come to all this.' (New member, Claire, Melbourne)

Building legitimacy and trust

120 Members who used a property one-stop shop said that the companies did much to prove they were legitimate. Some members also said the property one-stop shop demonstrated a connection at a human level.

> 'We just clicked with them. They just seemed genuine, nice people … I think we just had a really good gut feeling about the service that they offered. It was very clear that it was family-based company, successful, but I think their success comes through their customer service and that was important to us.' (Established member, Nancy, Melbourne)

121 Trust was enhanced through the use of testimonials, referral programs and special events (e.g. free lunches and seminars). These were perceived as appealing by these members and also increased their perception of their legitimacy. The seminars were reported to have often covered the property cycle and made recommendations for when and how to invest in property.

> 'It is when you get on, when you get off, where the market is and they essentially list all the states and the capital cities and it is like … When the time to buy is, when the market is leading, when the market is going to buy. It sort of does the circle and supposedly … Just missed the Sydney market. Brisbane is the place to go at the moment. Certain parts of Brisbane is the place to go … ' (Established member, Victor, Sydney)

122 Members also enjoyed the opportunity to network with like-minded investors at the special events.

> 'There were other people like us. There were couples of all different sorts of ages and different groups, some starting off.' (Established member, Paul, Melbourne)

123 Some members noted the lack of pressure made them feel comfortable and created a sense of trust.

> 'When they talked us through—the fact that we felt comfortable with these people because they covered all our concerns and they seemed so professional in what they were doing. Providing the full service and the fact that there was no pressure along the way to sign up.' (Established member, Paul, Melbourne)

124 However, in some cases, members said that the property one-stop shop used pressure tactics to encourage them to act, including focusing on house resale values.

> ‘ … They looked at a property for us in September which was a certain price and it had already gone up by $15,000 and they said to us that’s $15,000 you could have made on your super had you set it up, which makes sense … And we just looked at each other and said you know what, that’s so true, we could have made $15,000 in our super in less than a year, so that’s why we turned around and said we’ve got to do this.’ (New member, Lily, Sydney)

Experiences with inter-related parties

125 After members had made a decision to establish an SMSF with a property one-stop shop, they were introduced to related parties such as mortgage brokers, lawyers, insurance brokers, property management companies and property developers.

> ‘It’s a little club so you deal with all their people.’ (New member, Bernard, Melbourne)
>
> ‘Just really that they don’t just offer financial planning services, that they are like a one-stop-shop when it comes to finances.’ (New member, Rebecca, Sydney)
>
> ‘We met lots of people through their company, all their different specialists … But they all specialise in a different field so we met with an accountant, we met with the financial adviser, we met with the guy who sets up SMSF’s, we’ve met with mortgage brokers to discuss about how you buy property through an SMSF so we met with lots of people … It’s like a one-stop-shop, they do absolutely everything for us that we ask them to do.’ (Established member, Nancy, Melbourne)
>
> ‘They’ve set up the self-managed super fund, but it’s not just the self-managed super fund that they’ve set up. It’s what we’re investing in as well, so we’re not only setting up the self-managed super with them, but we’re going into an investment quote with them to develop properties and subsequently that’s what we’re investing our super in.’ (New member, Beth, Melbourne)

126 Some members seemed unconcerned about potential conflicts of interest of all the parties involved. In fact, they saw these interdependent relationships as beneficial to them, and some said they preferred to only use professionals within the group.

> ‘I’d rather just stay with the main group because they’re together. They can talk to each other.’ (New member, Bernard, Melbourne)

Perceived benefits of using property one-stop shops

127 Many members said they felt property one-stop shops took away the hard work of having to deal with the details of setting up and running the SMSF. These members liked the fact that they were offered end-to-end solutions.

128 These experiences are explored in more detail in Case study 2.

Case study 2: New member, Bernard, Melbourne

Bernard received a phone call from a property one-stop shop that he had previously bought a property through. They offered him a free financial assessment, which resulted in a suggestion to buy an off-the-plan property through an SMSF. He was drawn to the property one-stop shop because of the links they had with other professionals.

> '[They] go straight to the builders, so it's off-the-market property … I thought it was pretty good. I think they all work together, they recommend their mortgage brokers.'

Bernard relied on the information provided by a financial adviser connected to the property one-stop shop to set up his SMSF. Bernard thought the property one-stop shop probably received a commission for the referral to the financial adviser, but he did not mind.

> 'I don't care, as long as I get good advice.'

Although Bernard had an established relationship with an accountant who advised him that he could establish the SMSF for him, he preferred the perceived benefits of working with the property one-stop shop.

> 'They're together. They can talk to each other … '

He acknowledged that there were aspects of his SMSF that he found confusing.

> 'At the moment, (I'm) not as knowledgeable as I would want.'

129 Many members in Melbourne and Sydney who had set up their SMSF with a property one-stop shop had not yet bought a property as they were waiting for off-the-plan properties to be completed.

130 However, all members who had bought an investment property in Sydney or Melbourne through a property one-stop shop stated they had successfully rented their properties. Many of these members also reported that property prices in the area had risen.

131 Generally, members who bought properties in Brisbane and its surrounding areas had a different experience. These members were told that Brisbane was the new 'promised land', with some of the reasons given by property one-stop-shops being:

(a) the property market will boom as it did in Sydney and Melbourne;

(b) the population will grow and industry will continue to invest in Queensland; and

(c) new family-friendly suburbs are fertile growth corridors (e.g. North Lakes and Griffin).

132 Some members who invested in properties in Brisbane said they found the reality to be quite different and reported encountering the following issues:

(a) low rent and oversupply of properties;

(b) unanticipated outgoings such as high council rates;

(c) unanticipated maintenance due to low building quality; and

(d) unexpected ongoing fees that were not part of the original budget (e.g. real estate agent and property management fees).

Belief that fees charged were justified

133 Some members viewed the fees charged by property one-stop-shops as justified and weighed them up against low effort with big potential returns. For these members, this trade-off was worth the commission they paid.

> 'We paid for our investment package which meant that they did all the—they source the properties … They did all the conveyancing … And a lot of those things … We felt that we paid them to do what we can't do basically and make sure that it all happens directly.' (Established member, Paul, Melbourne)

Disclosure of risks

134 There were some instances of property one-stop-shops reportedly not informing members of the risks associated with buying property off the plan, the costs associated with buying property (e.g. maintenance costs), or the legal requirements such as setting up a bare trust.

135 One member who had a bad experience with property investment through his SMSF blamed himself rather than the property one-stop-shop. Another member said they would not invest in this way again.

136 These experiences are explored in more detail in Case study 3.

Case study 3: Established member, Luke, Sydney

Luke acknowledged losing money in his SMSF as a result of a property purchase.

> 'I have made a few mistakes with money especially with my SMSF. I am fairly cautious, but I dropped the ball a few years [ago] when I set this fund up and I am paying for it now.'

After a cold call, a financial adviser met with Luke and his wife and told them they would not reach their target for retirement based on his current salary and superannuation. The financial adviser and a related accountant suggested setting up an SMSF, specifically to invest in property in Queensland.

> 'I set up [an] SMSF through the financial adviser and accountant and to this day, I can't believe I entrusted my money to them. I made some serious mistakes with them.'

Luke initially felt reluctant to invest in property, but was persuaded to do so by the financial adviser and the accountant. He was advised that a mortgage through an SMSF was complicated so he bought a property outright in Queensland.

In retrospect, Luke felt he should have done a lot more research before buying the property.

> 'You just think "superannuation fund, property, you own it outright, you get the tax benefit". If I actually sat down and realised a $400k townhouse has body corporate fees, [with the] $50 a week you only have to invest, your rental return comes down to something like 3% which is nothing. I could have done a lot better in shares and … it would have been easier to just stick the money in the bank and get interest.'

Luke found that the costs of buying a property were higher than he anticipated.

> 'I didn't look at the cost. Cost of maintenance, I didn't realise it would be so much.'

Luke also found the cost of running an SMSF higher than he expected.

> 'They are quite excessive now I am looking into it more, the accountancy fees plus the audit fees to audit the SMSF for taxation [purposes].'

Luke is attempting to sell his townhouse for $22,000 less than he paid for it. He estimated his overall loss to be $70,000. After Luke has sold his investment property, he will keep his SMSF because he still wants control over his superannuation, but he will buy shares.

> 'The share market you can hold onto and if need be, I can sell them tomorrow. Property is high maintenance.'

Luke's perspective on the SMSF industry is not positive.

> 'I think right now it is a bit of a cowboy industry … you have to be really careful.'

D Member experiences in running an SMSF

Key points

Member experiences in running an SMSF varied significantly.

For many members, their experiences were not aligned with their expectations. This particularly related to:

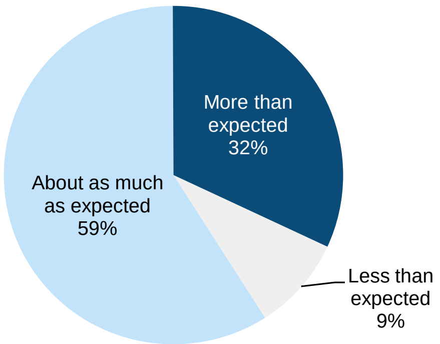
- costs to set up and run an SMSF;
- time spent on an SMSF; and
- the unexpected complexity of running an SMSF.

Some members lacked a basic understanding of SMSFs and their legal obligations as SMSF trustees.

Costs to set up and run an SMSF

137 Results of the online survey showed that the cost of setting up and running an SMSF was 'about as much as expected' for almost three in five members (59%): see Figure 7. However, these costs were greater than had been expected for nearly one third of members (32%).

Figure 7: Cost of setting up and running an SMSF, online survey (%)

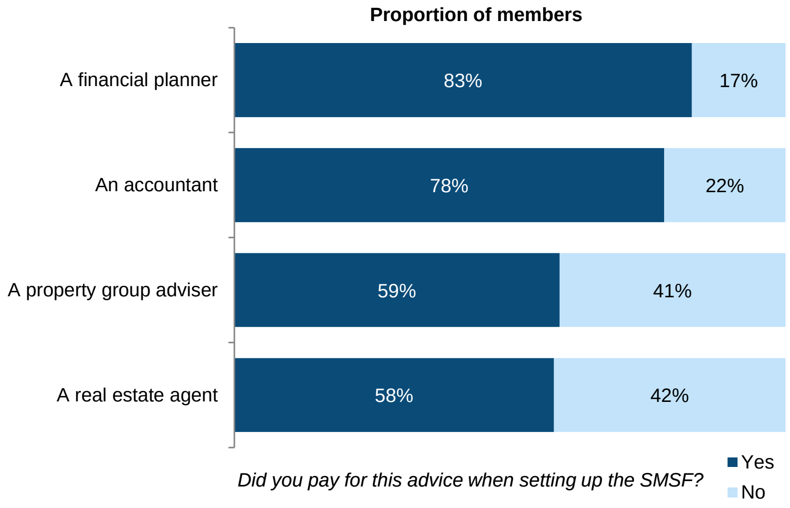


Note 1: See Table 12 in Appendix 4 for the underlying data shown in this figure (accessible version).

Note 2: Base: 457; Question C4. And when it comes to the money required for setting up and running an SMSF, either the costs you have paid, or costs you have paid to someone else to help with your SMSF, such as an accountant or financial adviser, [how much] has it cost?

138 In the online survey, most of the members who used a financial adviser or an accountant when setting up their SMSF reported paying for this advice (83% and 78% respectively): see Figure 8. Those members who said they used a property one-stop shop or a real estate agent reported paying for advice just over half the time (59% and 58% respectively).

Figure 8: Fees paid for advice when setting up an SMSF, online survey (%)



Note 1: See Table 13 in Appendix 4 for the underlying data shown in this figure (accessible figure).

Note 2: Base: 457; Question B3. And did you pay for this advice when setting up the SMSF?

139 In the interviews, members indicated that the cost of setting up their SMSF represented the largest proportion of the overall cost.

140 The fees for set up and ongoing management of an SMSF varied between members. In a number of cases, members were not entirely sure about what the ongoing fees were.

> 'It was about $12k to set it up. The ongoing fee is something like $250 a month.' (Established member, Jacob, Melbourne)
>
> 'Fees were $5k to set up the SMSF and then $2,500 a year for ongoing fees and $1k for share tracking, so $3,500 a year.' (Established member, Luke, Sydney)
>
> 'It ended up being around $6,000 I think. No it was more than that, I think it was close to $10,000; $8,000 to $10,000 … [the ongoing fees are] a couple of thousand a year or something. But I think that just comes out of the fund.' (Established member, Brandon, Melbourne)

141 A number of members recognised that the costs were high; however, they were unconcerned as they felt that they were receiving additional support.

> 'To set all that up was around 12 grand I think … which is probably more than it should have been but it was like "they know what they're doing". They know exactly how to set it up for putting property in because apparently property is a bit harder to buy in an SMSF. It has to be set up correctly.' (Established member, Monica, Melbourne)

142 Some members counted the fees as part of their ongoing relationship with their adviser. This was particularly the case for people who already ran their own business and paid for financial assistance through the same expert who set up their SMSF.

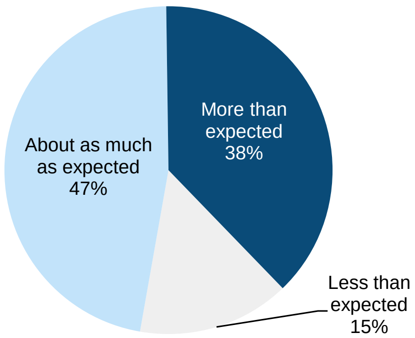
143 At least one member did not know how much they paid in ongoing fees for the management of their SMSF as it 'was rolled into managing the business'. Another member had the fees taken out when they paid for assistance with their tax return and appreciated the simplicity of this arrangement.

> ' … they lumped it in with our tax return and everything like that, so it's sort of built in nicely with that kind of stuff.' (Established member, Angus, Sydney)

Time spent on SMSFs

144 In the online survey, the amount of time members spent on their SMSF was 'about as much as expected' for almost half (47%) of members: see Figure 9. Almost two-fifths (38%) of members said their SMSF had taken up more time than expected.

Figure 9: Amount of time spent on SMSFs, online survey (%)



Note 1: See Table 14 in Appendix 4 for the underlying data shown in this figure (accessible version).

Note 2: Base: 457; Question C3. When it comes to the time spent on your SMSF, [how much] has it taken up?

Time spent setting up the SMSF

145 In the interviews, some members indicated they spent considerable time and effort setting up their SMSF.

> 'It took time because there is a lot of paperwork to do to open up an SMSF. You have to open up the trustee account. It's not an easy exercise. You have to go to the bank a few times to open up the account to set it all up and you need to give the ABN number to the ATO and there's quite a bit to do.' (Established member, Natasha, Melbourne)
>
> 'It was too hard because you have to have a deed, so initially you've got to set up the super fund and then you've got to set up the trustee for the super fund so the super fund is a trust and then you have to set up the corporation and then it was like a case of "who are the members of the super fund" and then it was "okay you've got to have deeds" and it was like "oh my god".' (Established member, Renae, Sydney)

> 'Oh it sounded so much easier than it was going to be. It's so much time. So many going in for meetings and signing five million documents … there were a couple of days of three or four hours [spent on the paperwork].' (Established member, Monica, Melbourne)

146 However, other members found it easy to set up their SMSF. These members relied on their 'financial expert' to do most of the work for them.

> 'Absolutely they've done everything for us we've just had to do everything that they tell us to do, come in and sign this or they'll send this out.' (Established member, Nancy, Melbourne)

Time spent running the SMSF

147 Once the SMSF was set up, many members said they outsourced as much of the running of the SMSF as they could.

> 'It is pretty seamless in terms of what I have to do, they get paid a fee by me to look after my interests in terms of the SMSF, which involves them doing the tax return and then arranging the audit every year.' (Established member, Jacob, Melbourne)

148 Other members said the amount of paperwork they had to do took more time and required more effort than they expected.

> 'I had no idea of the amount of paperwork involved. I also started to get these bills, council rates, body corporate rates, real estate agent things.' (Established member, Luke, Sydney)

149 One member who had used a property one-stop-shop recommended by his accountant to set up his SMSF expressed irritation at the amount of time he spent managing the property. This member described the experience as 'overwhelming' and preferred the simplicity he had experienced with his APRA-regulated fund.

> 'I said to the accountant [that] I'll only go into this [on] the basis that we don't have to do anything, we don't have to worry about it … [I thought] that the accountant and her brother [the financial adviser] would look after absolutely everything and it hasn't really worked out that way … for instance we're still having to deal with the agent in making decisions … the dishwasher at one stage broke down and I thought they would go through the accountant … but it's [going] through us, it's not [going] through the middle person … It's really disappointing because I thought they'd be reviewing our shares [which the accountant had recommended be purchased in the SMSF] because we don't know anything about shares.' (Established member, Brandon, Melbourne)

Unexpected complexity of running an SMSF

150 A number of members found running an SMSF to be complicated.

> ‘You talk to your financial planners, developer or real estate agent. Even a broker, like a mortgage broker. It seems so simple but it is not.’ (Established member, Victor, Sydney)
>
> ‘We knew initially it was going to be a little bit complicated to set up and there was a lot of reading and information that I needed to be informed of. (New member, Jane, Sydney)
>
> ‘I just thought [about] it as maybe a bit complicated for a civilian. And that it was quite complicated to set up … ‘ (New member, Rebecca, Sydney)

151 Some members with property investments in their SMSFs experienced problems they had not expected, including the requirement to set up a bare trust when entering into a limited recourse borrowing arrangement, property costs (i.e. stamp duty, rates, maintenance, loss of rental income) and a downturn in the market.

> ‘I wasn’t aware originally that we’d need to set up a separate company to purchase a property, our super fund couldn’t be the actual company … and then linked to that super fund is a separate company, that’s the company that purchases the property, they’re probably the main things.’ (Established member, Robert, Sydney)
>
> ‘Yeah basically … you can’t buy a property through your super fund, you have to set up a bare trust which is attached to your super fund and that’s what owns the property … so that was a bit of a stumbling block for us as we didn’t know we would have to do that.’ (Established member, Renae, Sydney)

Understanding of SMSFs and legal obligations

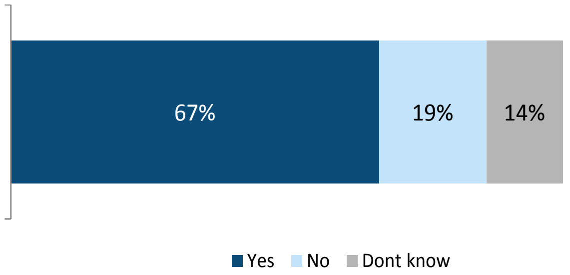
152 Some members lacked a basic understanding of SMSFs and their legal obligations as SMSF trustees. For example, the interview responses revealed a lack of awareness by some members of the strict rules that apply to properties held through SMSFs. In particular, a number of members seemed to be unaware that residential properties held in SMSFs must not be lived in or rented by a member or their related parties.

Knowledge of investment strategy requirements

153 An investment strategy for an SMSF sets out the investment objectives and the type of investments possible within the SMSF. It is a legal requirement for SMSFs to have an investment strategy. In the online survey, members had mixed views about whether an SMSF is required to have an investment strategy.

154 Only 67% of members reported that an SMSF is required to have an investment strategy: see Figure 10.

Figure 10: Whether an SMSF must have an investment strategy, online survey (%)



Note 1: See Table 15 in Appendix 4 for the underlying data shown in this figure (accessible version).

Note 2: Base: 457; Question C4. Is an SMSF required to have an investment strategy?

155 The interviews gave some insight into those who used an investment strategy for their SMSF. Some members said they relied on a 'financial expert' for developing and implementing an investment strategy. One member expressed limited knowledge of what their investment strategy, developed by a 'financial expert', contained.

> 'I don't know every word that's on that.' (New member, Vivian, Melbourne)

156 Other members had quite narrowly focused investment strategies, such as 100% invested in property.

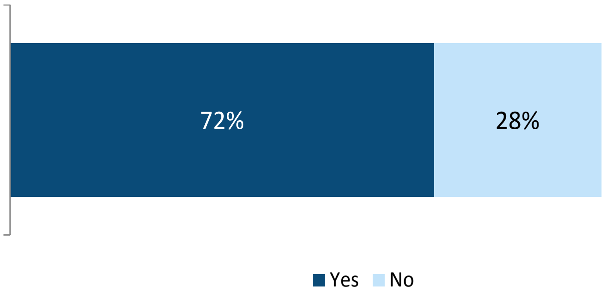
> 'Well, for me, my aim for my retirement is to have a portfolio of properties.' (Established member, Nancy, Melbourne)

Beliefs about life insurance cover

157 Unlike APRA-regulated funds, SMSFs do not offer life insurance within them and this cover must be bought separately by each member. Members are legally obligated to consider their life insurance requirements when setting up an SMSF as part of the overall investment strategy.

158 In the online survey, almost three in ten (28%) members reported that neither they nor their adviser considered their insurance needs when they set up their SMSF: see Figure 11.

Figure 11: Whether insurance needs were considered when setting up an SMSF, online survey (%)



Note 1: See Table 16 in Appendix 4 for the underlying data shown in this figure (accessible version).

Note 2: Base: 457; Question C1. When you were establishing your SMSF, did you or your adviser consider your insurance needs?

159 In the interviews, some of the members who had considered their insurance needs said they held onto their APRA-regulated fund to meet this need rather than buying separate life insurance.

> 'We still have independent super funds, what held us from going fully SMSF was the insurance component … ' (Established member, Renae, Sydney)
>
> 'We kept some of our money in our old super, we haven't moved all of our money into our SMSF because with our old super we've got life insurance and whatever other things you get having that super so we didn't want to lose that by moving it all into our SMSF. I've still got enough in there that if need be, we will top it up just to make sure that our insurances are covered.' (New member, Lily, Sydney)

160 Other members who had considered their insurance needs said they decided to buy their insurance separately. One member preferred to choose life insurance that was better suited to their needs.

> 'They [financial adviser] closed the other account, moved it into this one and same with my wife's. Then because the other one had life insurance associated with it, they organised life insurance.' (New member, Bernard, Melbourne)
>
> 'It's a little bit hard in that super structure to go elsewhere [for life insurance], your only other option is to refuse their insurance options, go outside of super and then have to pay retail but claim it through your tax, so that's actually another really good one too, the funds and all those people will tell you, 'oh you get free insurance in your super', no it's not free, and it's not always the most appropriate … You also are able to scrutinise the products more closely, and ensure that the insurance products that you're paying for deliver what you need.' (Established member, Paul, Melbourne)

161 Some members indicated that cost was a barrier for having insurance organised through their SMSF.

> 'It became very apparent that whatever insurance we were going to take out of our SMSFs was really high, [I] remember it was like two grand or something, we had to pay two grand a month on cover, so we made the decision not to roll all of our supers into our SMSF.' (Established member, Renae, Sydney)

Beliefs about member's legal responsibility

162 The online survey did not assess members' views on their requirement to be legally responsible for their fund. In the interviews, some members reported not fully understanding their legal responsibilities in running their SMSF.

> 'I didn't realise that it needed to be overseen by an independent auditor every year … ' (Established member, Robert, Sydney)

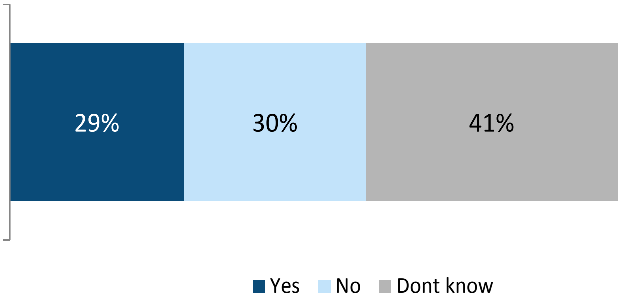
163 Some members believed that their financial team was legally responsible for their SMSF.

> 'I don't know too much about it because that's, this sounds terribly up myself, but that's why I employ [the property one-stop shop], that's why I'm with them to look after all that and make sure that I'm compliant and not doing anything wrong … ' (Established member, Nancy, Melbourne)

Beliefs about entitlement to compensation for theft or fraud

164 Members are not entitled to compensation if an SMSF suffers loss due to theft or fraud, whereas members of APRA-regulated funds are entitled to compensation. In the online survey, almost three in ten (29%) members reported thinking they were entitled to compensation in this situation: see Figure 12.

Figure 12: Whether members are entitled to compensation for theft or fraud, online survey (%)



Note 1: See Table 17 in Appendix 4 for the underlying data shown in this figure (accessible version).

Note 2: Base: 457; Question C5. If an SMSF suffers loss due to theft or fraud, are the trustees entitled to compensation under superannuation laws?

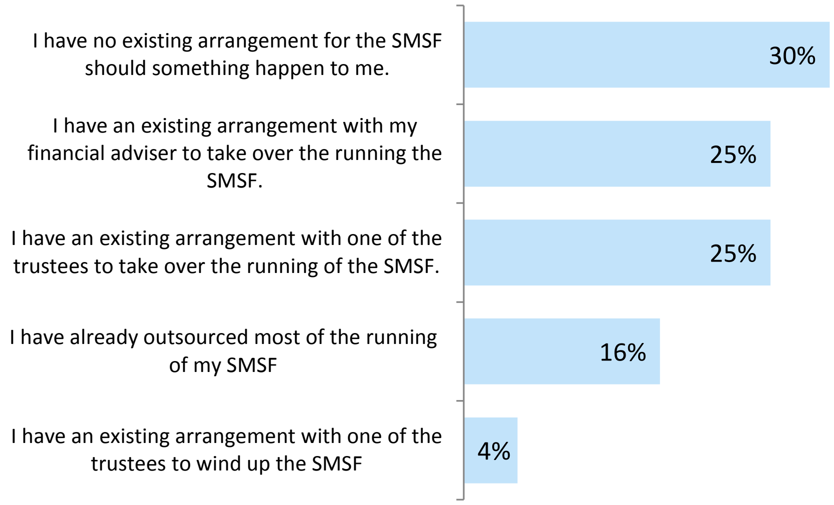
165 In the interviews, one member stated that if anything should go wrong, their financial adviser would be held accountable.

> 'That is the obligation of the financial planner, I can sue him in the court if he does something wrong in there so he is more worried than me that he should not do anything wrong. I take him to court the day he does something wrong … ' (New member, Rashpal, Sydney)

Whether members have a succession plan

166 In the online survey, three in ten (30%) members reported having no existing arrangement for their SMSF should something happen to them: see Figure 13.

Figure 13: Succession planning for SMSFs, online survey (%)



Note 1: See Table 18 in Appendix 4 for the underlying data shown in this figure (accessible version).

Note 2: Base: 457; Question C6. Do you have a plan in place if you are no longer able to manage your SMSF? For example, due to ill-health, cognitive decline (e.g. dementia) or other reasons?

Self-assessment of knowledge to manage the fund

167 In the interviews, many members reported relying on 'financial experts' to do their paperwork, advise them on what to invest in, and manage the day-to-day running of their SMSF. This was despite the general preference to have control over their superannuation.

> 'The accountant does it all. If I had to do it myself, [I would have] no hope in hell … ' (Established member, Felicity, Sydney)
>
> 'Well basically when we look at its running, we rely on these investment companies on doing that for us.' (Established member, Paul, Melbourne)
>
> 'I don't feel knowledgeable but I feel very confident in his knowledge about it.' (New member, Beth, Melbourne)
>
> 'I went 'oh I am not a finance person', that is not what I do for a living, yet I am going to be someone who is self-managing it', and you're not, your accountant is.' (Established member, Cleo, Melbourne)
>
> 'Without sounding dumb, 50% of it you don't understand because you don't have an accountancy background.' (Established member, Victor, Sydney)
>
> 'It was a lot easier having someone guide me; I had no idea of conveyancers and who needs to have signed but having my accountants there who knew the process and 'it is okay, we have to do this now and do that now' and it was so much easier.' (Established member, Felicity, Sydney)

168 Most of these members did not express a desire or need to educate themselves. This was because they were comfortable having deferred knowledge to a ‘financial expert’ they trust.

> ‘I could send a quick email and say ‘what do you think about this’ and they will often even execute it on our behalf so I rely on them to do that day to day stuff really even though it is in our name and even though it is ours, it is easier for us at the moment while we are both still working.’ (Established member, Cindy, Sydney)
>
> ‘I don’t need to know how it works, I don’t really want to know how it works. It is too hard.’ (Established member, Renae, Sydney)
>
> ‘I tended to rely on her expertise and that she wouldn’t throw me out in the deep end.’ (Established member, Angus, Sydney)

169 These experiences are explored in more detail in Case study 4.

Case study 4: Established member, Angus, Sydney

Angus and his wife have an SMSF which contains $120,000 invested in a high interest savings account. He has no short term plans to invest in other types of assets.

> ‘I’m at the stage that it’s there, it’s like a bit of a nest egg and I probably should (diversify) in the next few years, basically I’m just waiting for the kids to make their own way in life. Once they start moving out, I’ll probably look into depth and further details … ‘

Angus set up the SMSF after they received some money from his wife’s previous employer. He had initially asked his tax agent about an SMSF and they said they would organise it for him.

> ‘I definitely wouldn’t do it on my own. There’s too much involved, there’s too much red tape.’

He relies heavily on the tax agent for information about running an SMSF.

> ‘I tended to rely on her expertise and that she wouldn’t throw me out in the deep end. It was quite a lot of paperwork … ‘

He admits that when he set up the SMSF, he didn’t realise what he was getting himself into.

> ‘I think I should have looked into it a little bit more than what I probably did. Like I said, I didn’t realise there were going to be that many sort of rules and regulations and things like that involved with it.’

He also found costs higher than expected.

> ‘I think the fixtures and charges tend to outweigh a lot more than probably what it’s worth.’

He is not entirely confident in his SMSF’s performance, and has kept his existing employer’s super fund for security.

> ‘If something does go wrong, or I really screw up not knowing fully the ins and outs of it, if I was to lose I’d lose a small amount as opposed to 25 or 30 years’ worth.’

Angus also has another super account but will eventually consolidate the latter with his employer's fund.

With the SMSF, he is very 'hands off', and will consider revising his strategy in the future.

> 'It's just there in the background for me. It's not something that I want to get my hands on now. When I get to maybe within five years of that, close to that time, then I'd probably have a big hard look at it, see what other contributions I can make or additional contributions I should say and make it work towards my benefit then.'

E Investment choice and performance monitoring

Key points

Shares and property were the most common asset classes for SMSFs among members, followed by managed funds and term deposits.

Some established and new members had not yet made any investments.

Some members had little awareness of either the investments that were in their SMSF or how the investments were performing.

Understanding of diversification among members was mixed. Some members saw variations of the same type of investment as diversification (e.g. property in different locations, or commercial and residential property).

Investments made

170 In the online survey, the most common asset class that members stated they invested in were:

(a) shares (34% for new members and 43% for established members);

(b) property (41% for new members and 33% for established members);

(c) managed funds (26% for new members and 28% for established members); and

(d) term deposits (19% for new members and 24% for established members).

Lack of investment by some SMSFs

171 Some members in the online survey had not made any investments since setting up their SMSF. In the survey, 6% of both new and established members had not made any investments since setting up their SMSF.

172 One member chose to keep her money in cash as her purpose for setting up an SMSF was to remove her money from an APRA-regulated fund and what she considered to be the 'risky' stock market.

> 'It's just sitting there as cash in a savings account at the moment, maybe in three or four years we might look at that [using SMSF for property] and utilising it if we need to … it's purely based on the property market with the over inflated prices'. (Established member, Cleo, Melbourne)

173 Case study 5 outlines the experience of one member who was unable to get a loan to buy the property, resulting in her money sitting in a bank account for the past two years.

Case study 5: Established member, Monica, Melbourne

Monica and her partner set up their SMSF for the sole purpose of buying a third investment property on the recommendation of a property one-stop shop.

She bought her first and second investment properties with the same property one-stop shop before the group recommended setting up an SMSF to buy the third one during an annual review 'health check' of their existing properties.

After paying $12,000 to set up their SMSF, they were rejected for a loan on the third property that they had intended to buy through their SMSF.

> '[The bank] pretty much said based on your debts outside and your income and serviceability … you don't actually have enough money to cover the loan.'

This was after they had placed an additional $50,000 into their SMSF to have a large enough deposit to buy the third investment property.

After the loan was rejected, she went back to the property one-stop shop.

> 'You guys [the property one-stop shop] sort it out, you're the ones who said we can do this, between them and the accountant … you've convinced us to do this and it's not working, you sort it out and get our deposit back, and they did.'

While Monica got the deposit money back, the $12,000 set-up cost was not returned and the SMSF was still running with $250,000 that had been sitting in a bank account for the past two years.

> 'It's not doing anything … we have to get back to dealing with it because it just left a not-so-great taste in our mouths … we've been so busy recently that I just haven't been thinking about it.'

She said she was considering closing the SMSF.

> 'I'm just tempted to close the thing and just put it in an industry super fund and be done with it because it [the SMSF] is a lot more work.'

Lack of awareness of SMSF investment performance

174 Both the interviews and online survey revealed a tendency for some members to be unaware of either what their SMSF was invested in, or how the investments were performing.

175 In the online survey, most new members (99%) remembered what they had invested in; however, nearly one in ten established members (9%) could not remember what they had invested in.

176 In the interviews, many members said they did not know how their SMSF was performing.

‘I’d like to think we’re outperforming our previous super, I’d be very disappointed if I wasn’t, put it that way.’ (Established member, Nancy, Melbourne)

‘I don’t really pay attention to it actually.’ (Established member, Gregory, Sydney)

‘In all honesty, I can’t say. It’s probably doing well, but my care factor is probably lower than it should be.’ (Established member, Cleo, Melbourne)

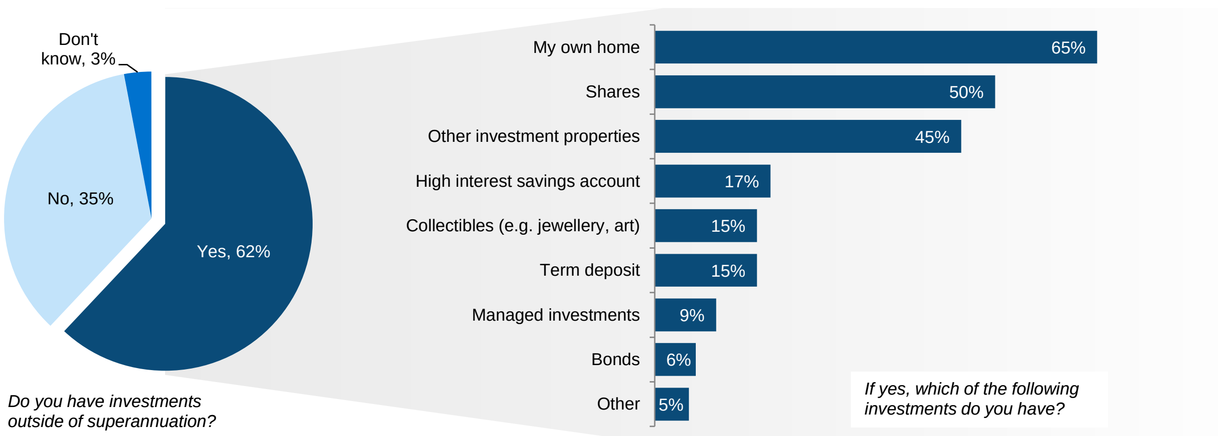
Low levels of diversification

177 The online survey found that around half (51%) of members had retained superannuation outside of their SMSF. However, one in five (19%) members had neither superannuation, nor any other investments, outside their SMSF.

178 Further, two thirds (66%) of participants in the online survey indicated that their SMSF invested in only one type of asset. In total, 22% of members had invested only in property, 16% had invested only in shares, 8% had invested only in managed funds, 5% had invested only term deposits, and 3% had invested only in collectibles.

179 Around one in three (35%) members had no investments outside of their superannuation. Of those who did (62% of members), the most common type of investment was their own home (65%), followed by shares (50%) and other investment properties (45%): see Figure 14.

Figure 14: Investments outside superannuation, online survey (%)



Note 1: See Table 19–Table 20 in Appendix 4 for the underlying data shown in this figure (accessible version).

Note 2: Base: 457; Question D1. Do you have investments outside of superannuation?

Note 3: Base: 305; Question C6. Which of the following investments do you have outside of your super?

180 In the interviews, members' demonstrated understanding of diversification was mixed. Many members understood that having a diverse portfolio meant not having all their money invested in one type of asset.

> 'It's best not to have all your money in the same place.' (New member, Bernard, Melbourne)

181 A few members thought it was desirable to have a diversified investment portfolio for their SMSF. One member said this was the appeal of an SMSF compared to an APRA-regulated fund.

> '[Having an SMSF] we could be more proactive and less reactive and we could actually split our risk over different investment streams rather than having it all tied up in the share market.' (Established member, Robert, Sydney)

182 There were some members who expressed no interest in diversification. For example, one member's sole investment was gold as he believed this was the only asset class that would retain value if a second global financial crisis occurred.

Property and diversification

183 Some members expressed interest in diversification, but showed limited understanding of what diversification meant in practice. For example, some members considered they had a diverse portfolio consisting only of property if they had multiple properties, properties in different locations, or both commercial and residential properties.

> 'I would like to try not to have all my eggs in one basket. This is why I have many properties.' (New member, Beth, Melbourne)
>
> 'It's just minimising the risk and keeping it diverse—you don't want to have all properties in Melbourne, you want to have them scattered so it's less risky.' (Established member, Cleo, Melbourne)
>
> 'You don't want [to] put all your eggs in one basket, you want to spread your risk into commercial and residential (properties) and this is what they call 'diversified'.' (Established member, Rick, Sydney)

184 Other members considered having property in and outside of their SMSF as a 'diversification' strategy.

> 'We did want to keep things a little bit separate, made sure that we could cope with it all, probably more just about diversifying rather than having all our eggs in just the one basket [speaking about having property inside and outside of SMSF].' (Established member, Nancy, Melbourne)

185 Some members were reluctant to diversify as they believed that property was the safest investment. All other assets were considered too risky.

> 'I have never thought of investing my superannuation in any other form other than property because not only the last five or 10 years but property all around the world, it is the safest and no one can take it away, especially

in this country. If you buy a piece of land, it is your piece of land forever.' (New member, Rashpal, Sydney)

'Well, doesn't everyone say you should diversify … I don't think either of us really understand shares and I don't really trust them. I know over time that they're supposed to be a very similar return to property but I like the fact that it's more of a tangible asset, property. (Established member, Monica, Melbourne)

186 A few members expressed uncertainty about what else they could invest in outside of property either because they were not told, they forgot, or they were not interested investing in any other asset.

'I can't remember what other [assets] because we were not interested in all the other stuff.' (Established member, Natasha, Melbourne)

187 Members using property one-stop-shops planned further property investments in the future, rather than other types of investments.

'It would be 10 years … before we start thinking about buying a different property or expanding to other properties or multiple properties.' (New member, Claire, Melbourne)

Diversification as a future investment strategy

188 Some members demonstrated an understanding of what diversification means and how important it is, but they said they had put it off for now.

'We want to look at other investments within the SMSF … Not 100% sure what those will be as of yet so possibly another property and maybe I know you can invest in businesses, all sorts of things, fine art, anything that can make you an income … .' (New member, Jane, Sydney)

'About six months ago we purchased the investment property, so in terms of [the] future and going forward we want to increase our shares and stocks holding so that we diversify and I guess ensure ourselves in our future and her [his daughter's] future.' (Established member, Robert, Sydney)

Appendix 1: Research sample and limitations

Sample sources

189 Survey participants were sampled from two sources. Initially, emails were sent directly to people who had registered an SMSF with the ATO between July and September 2016. This information was supplied by the ATO.

190 This sample was then supplemented with a sample gathered from an independent panel. The panel sample was designed to include more people who had recently set up an SMSF relative to those who had set up an SMSF a number of years previously. This is because recent members were expected to have better recall of their experiences.

191 As a result of this approach, most participants in the survey had recently set up their SMSF. Consequently, the survey sample did not necessarily reflect the broader SMSF population in terms of when an SMSF was set up: see Table 1.

Table 1: Comparison of survey sample and ATO data

Survey categories	Survey sample (%)	ATO categories	ATO data (%)
Within past 6 months	10%	December–May 2017	7%
Within past 6–12 months	67%	June–November 2016	10%
About 2 years ago	11%	June 2015–May 2016	19%
About 3 years ago	7%	June 2014–May 2015	20%
About 4–5 years ago	4%	June 2012–May 2014	44%
Can't remember	1%	N/A	N/A

Source: ATO, *Self-managed super fund statistical report: June 2017*; ASIC survey data.

Demographics of participants

192 Table 2 summarises the demographics of the participants in the member research.

Table 2: Demographics of participants

Factor	Interviews (new members)	Interviews (established members)	Online survey (new and established members)
No. of participants	10	18	457
Gender	Male (30%) Female (70%)	Male (61%) Female (39%)	Male (64%) Female (35%) Not specified (1%)
Age	18–24 (0%) 25–34 (10%) 35–44 (50%) 45–54 (30%) 55–65 (10%)	18–24 (0%) 25–34 (0%) 35–44 (39%) 45–54 (39%) 55–65 (22%)	18–24 (10%) 25–34 (24%) 35–44 (25%) 45–54 (23%) 55–65 (18%)
Location	Sydney (60%) Melbourne (40%)	Sydney (68%) Melbourne (32%)	Metropolitan (80%) Regional (20%)
No. of members in SMSF	2 members (80%)	2 members (67%)	2 members (53%)

Limitations of the research

193 All research has limitations. Table 3 lists the limitations that have been identified in the member research due to the methodology and sampling strategy.

Table 3: Limitations of the research (qualitative and quantitative)

Limitation	Descriptions
Sample size and source	The research samples were not necessarily representative of the total population; however, they did represent a cross-section of views: Note: All research methods have limitations. The mix of approaches (i.e. qualitative and quantitative research) was designed to minimise this limitation to an extent. • *Interviews*—Participants were sourced from an independent panel of members willing to participate in research. The sample was not representative of the SMSF population, but of the panel. • *Online survey*—To gain an adequate sample size to produce robust results, 2 different samples were combined. Of the 457 participants in the online survey, 261 participants were sourced through the ATO, while 196 participants were sourced through a market research panel. Note: The sample sourced through the market research panel was skewed towards those who have an internet connection, although this is the majority of the population.

Limitation	Descriptions
Location	Qualitative interviews were conducted in Melbourne and Sydney only. This means some of the research may be more reflective of the experiences of people living in these two cities, and not at all reflective of people living in rural or regional areas.
Subjective experiences	Both stages of the research were deliberately based on members' subjective accounts of their experiences in setting up and running an SMSF (i.e. 'self-reported data') to capture the experience from the member's point of view.
Recall bias	People may have difficulty accurately recollecting experiences or events that have happened in the past.
Hindsight bias	When being interviewed or surveyed after the fact, people view the past subjectively, which may lead them to judge events differently than in the past. Some people may also think differently if new information has come to light. In the interviews, members were asked to refer to their actual document as a way of jogging their memory and overcoming this bias.
Social desirability bias	People may attempt to present themselves in a favourable light to the researcher and may be unwilling to admit to mistakes they feel they have made. This is particularly the case in the interviews, which were conducted face-to-face.
Decision-maker bias	The research involved members who were decision-makers, rather than passive fund members. This may affect the findings from the research as people who are financial decision-makers may be more inclined to want to take control of their financial outcomes. The types of people recruited were: • *Interviews*—All participants were either the main decision maker, a joint decision maker or someone who sought advice from a professional (e.g. a financial adviser or an accountant on decisions relating to their superannuation. • *Online survey*—All participants were primary or joint decision-makers for certain financial decisions (e.g. choice of bank, superannuation and investments).

Appendix 2: Discussion guide

194 Table 4 gives an outline of the discussion guide that was used in the interviews for both new and established members.

Table 4: Discussion guide—New and established members

Discussion topic	Questions
Introduction	• Introduce research and establish rapport
About you	• Establish self-perceptions, goals and life satisfaction
Attitudes to money/finance	• Role of money in life—attitudes to money and finances • Feeling of self-confidence, control over finances • Sources of personal advice and information
Perceptions of superannuation	• Talk about homework—explore emotional, imagery • Perception of superannuation industry • Role of superannuation, initial motivations for SMSF
Journey to SMSF	• Draw an overview of timeline of events—from first intention to setting up SMSF • Mark before and after obtaining personal advice • Identify key events, motivations, triggers and influences the way • Overlay with feeling and experiences along the way
Before personal advice	• Sources of influence and trust to set up SMSF • Source of information about setting up SMSF • Expectations of the challenges and benefits • Choosing an adviser—process and criteria
Personal advice	• Explore experience with adviser • Questions asked about adviser's qualifications, skills and experience • Questions asked about SMSF • Using, reading and understanding of the advice—and SOA
After personal advice	• How did expectations of setting up an SMSF change? • What information was most useful?
SMSF accounts, SMSF challenges and benefits, SMSF assets	• Now you are running an SMSF fund, how does it fit with expectations? • Main challenges and benefits of having an SMSF account • Looking back, what could your adviser have done better?
Wrap up	• What advice would you give to anyone considering setting up an SMSF?

Appendix 3: Survey questions

195 Table 5 lists the questions asked in the online survey.

Table 5: Summary of questions in the online survey

Section A (Screener and profiling)

Questions	Options
A1. Just a few quick questions to start. Are you … ?	• Male • Female • Other • Prefer not to say
A2. How old are you?	• Under 18 • 18–24 • 25–29 • 30–34 • 35–39 • 40–44 • 45–49 • 50–54 • 55–59 • 60–65 • 66 and over
A3. What is your postcode where you live?	[Postcode given]
A4. In terms of making the financial decisions about such things as choice of bank, superannuation, and investments, which of the following statements overall reflects your role?	• I am the only person that makes these decisions • I share these decisions • I am not involved in these decisions
A5. Today we're wanting to know about your experience with self-managed super funds (SMSFs). This information will be used to help understand your experience as an SMSF trustee. Firstly, do you have an SMSF?	• Yes • No
A6. How many members are in the fund? By members we mean people who are in the fund, this will be yourself, but may include up to three others. But does not include people working on the fund (i.e. advisers).	• Just myself (one person) • Two people • Three people • Four people
A7. And do you have any other superannuation outside of your SMSF?	• Yes • No

Section B (Setting up an SMSF)

Questions	Options
B1. Did any of the [following] prompt you to think about establishing an SMSF?	• A friend or colleague • A family member • An accountant • A financial planner • A real estate agent • A property group adviser • A cold call from someone I don't know • Direct mail/email • Magazines • Advertisements • Newspapers (paper or online) • Other (please specify) • Can't remember
B2. Did you receive help or advice from any of the following when setting up your SMSF?	• Yes, to establish the SMSF (e.g. the paperwork) – A friend or colleague – A family member – An accountant – A financial planner – A real estate agent – A property group adviser – Other (please specify) – Can't remember – I did not receive any advice • Yes, to decide where to invest – A friend or colleague – A family member – An accountant – A financial planner – A real estate agent – A property group adviser – Other (please specify) – Can't remember – I did not receive any advice Note: If participant selected 'I did not receive any advice' for both, participant skips to question B6.

<table>
<tr><th>Questions</th><th>Options</th></tr>
<tr><td>B3. And did you pay for this advice when setting up the SMSF?</td><td>
• Yes
– A friend or colleague
– A family member
– An accountant
– A financial planner
– A real estate agent
– A property group adviser
– Other (please specify)
• No
– A friend or colleague
– A family member
– An accountant
– A financial planner
– A real estate agent
– A property group adviser
– Other (please specify)
Note: If participant answered ‘no’ to all, participants skips to question B6.</td></tr>
<tr><td>B4. Did you receive a Statement of Advice for any of the advice you received?</td><td>
• Yes
– A friend or colleague
– A family member
– An accountant
– A financial planner
– A real estate agent
– A property group adviser
– Other (please specify)
• No
– A friend or colleague
– A family member
– An accountant
– A financial planner
– A real estate agent
– A property group adviser
– Other (please specify)
• Unsure
– A friend or colleague
– A family member
– An accountant
– A financial planner
– A real estate agent
– A property group adviser
– Other (please specify)</td></tr>
</table>

Questions	Options
B5. And did any of the advisers of your SMSF recommend anyone else assist you when setting up your SMSF?	• Yes, a real estate agent • Yes, a broker to organise the loan • Yes, a financial planner • Yes, a property group adviser • Yes, a lawyer • Yes, someone else (please specify) • No
B6. When you first set up your SMSF, approximately what percentage of your SMSF balance did you plan to invest in each of the following?	• Property • Shares • Term deposits • Managed funds • Collectibles and personal assets (i.e. art, jewellery, vehicles, wine) • Other (please specify) • Can't remember
B7. And approximately what percentage did you invest in?	• Property • Shares • Term deposits • Managed funds • Collectibles and personal assets (i.e. art, jewellery, vehicles, wine) • Other (please specify) • Can't remember

Section C (Understanding of SMSFs)

Questions	Options
C1. When you were establishing your SMSF, did you or your adviser consider your insurance needs?	• Yes, I got replacement insurance in my SMSF • Yes, I kept some money in an APRA-regulated fund to retain some insurance • Yes, I have insurance outside of a super fund/my SMSF • No, I didn't consider my insurance needs • I'm not sure whether I have insurance in my SMSF • Other (please specify)
C2. Do you have a plan in place if you are no longer able to manage your SMSF—for example, due to ill-health, cognitive decline (e.g. dementia) or other reasons?	• I have already outsourced most of the running of my SMSF • I have an existing arrangement with my financial adviser to take over the running of the SMSF • I have an existing arrangement with my financial adviser to wind up the SMSF • I have an existing arrangement with one of the trustees to take over the running of the SMSF • I have an existing arrangement with one of the trustees to wind up the SMSF • I have no existing arrangement for the SMSF should something happen to me

Questions	Options
C3. When it comes to the time spent on your SMSF, [how much] has it taken up?	• A lot more time than expected • More time than expected • About as much time as I expected • Less time than I expected • A lot less time than I expected
C4. And when it comes to the money required for setting up and running an SMSF (either the costs you have paid or costs you have paid to someone else to help you with your SMSF, such as an accountant or financial adviser) [how much] has it cost?	• A lot more than expected • More than expected • About as much as I expected • Less than I expected • A lot less than I expected
C5. We are now going to ask you a few questions about SMSFs. Is an SMSF required to have an investment strategy?	• Yes • No • Don't know
C6. If an SMSF suffers loss due to theft or fraud are the trustees entitled to compensation under superannuation laws?	• Yes • No • Don't know

Section D (Wider financial situation)

Questions	Options
D1. Thanks so much for answering so far. Just a few more questions about yourself and we are done! Firstly, do you have any investments outside of your super?	• Yes • No • Don't know
D2. Which of the following investments do you have outside of your super?	• My own home • Other investment properties • Shares • Bonds • Collectives (e.g. jewellery, art) • High interest savings account • Term deposit • Managed investments • Other (please specify) Note: This question was only asked if participated selected 'yes' at question D1.

Questions	Options
D3. Now, please read the following pairs of statements and choose the statement that best describes your attitude toward investment?	• I like to take big risks if there's a change I could get a big reward OR I prefer investments that will bring in stable returns • Ultimately I trust my own judgement when making major financial decisions OR I use the advice of other people to guide my financial decisions • I want to see a decent return on my investment within the next 5 years OR I'm expecting it'll take closer to 15 years to see a decent return on my investment • Investing in property is the safer option OR Having a diversified portfolio (investments in property, shares and stocks) is the safer option • My investments are going to ensure I have a comfortable retirement/future OR My investments are to give my children a head start

Section E (Demographics)

Questions	Options
E1. Which of these describes the highest level of education you have completed?	• Year 9 or below • Year 10 • Year 11 or 12 • Diploma or certificate from a college or TAFE including an apprenticeship • Degree or diploma from a university • Postgraduate, Masters or PhD from a university
E2. What is your household's annual income before tax?	• Under $30,000 • $30,000–$39,999 • $40,000–$49,999 • $50,000–$59,999 • $60,000–$69,999 • $70,000–$79,999 • $80,000–$89,999 • $90,000–$99,999 • $100,000–$119,999 • $120,000–$149,999 • $150,000–$199,999 • $200,000 or more • Prefer not to answer • Don't know
E3. What is the main language spoken at your home with family/friends?	• English • English, but I also speak another language at home • I mainly speak a language other than English at home

Questions	Options
E4. Which of the following best describes your living situation?	• Single person, living alone • Single person, living with parents/family • Single person, living with one or more children • Couple living without children • Couple living with one or more children • Share house (group home of unrelated adults) • Other (please specify)
E5. Are you currently … ?	• A student • Working part-time (less than 30 hours a week) • Working full time (more than 30 hours a week) • Engage in home duties • Retired • Unemployed
E6. Which of the following best describes your occupation?	• Administration • Labour/Manual • Transport/Manufacturing • Tradesperson • Sales/Teaching/Clerical • Intermediate/Supervisory Managerial • Senior Manager/Professional • Other (please specify) Note: This question was only asked if the participated selected 'working part time' or 'working full time' at question E5.
E7. And finally, do you [own], or have you ever [owned] your own company?	• Yes, sole trader • Yes, 1–9 employees • Yes, 10–49 employees • Yes, 50–249 employees • Yes, 250+ employees • No

Appendix 4: Accessible version of data

196 This appendix is for people with visual or other impairments. It provides the underlying information for the figures presented in this report.

Table 6: Prompts for setting up an SMSF, online survey (%)

Survey response	Proportion of new members	Proportion of established members
A family member	16%	32%
A financial planner	28%	30%
A friend or colleague	25%	26%
An accountant	23%	25%
Myself or my own research	9%	0%
Magazines	7%	1%
A property group adviser	7%	5%
Advertisements	7%	8%
Direct mail or email	5%	7%
Newspapers (paper or online)	6%	3%
A real estate agent	3%	8%
A cold call from someone I don't know	4%	1%
Can't remember	4%	8%
Other	7%	2%

Note: This is the data contained in Figure 1.

Table 7: What members planned to invest in, online survey (%)

Survey response	Proportion of new members	Proportion of established members
Property	54%	33%
Shares	48%	37%
Managed funds	30%	35%
Term deposits	22%	20%
Collectibles and personal assets	6%	7%
Can't remember	1%	14%
Other	6%	2%

Note: This is the data contained in Figure 2.

Table 8: Use of external help/advice in setting up an SMSF, online survey (%)

Survey response	Proportion of new members	Proportion of established members
A financial planner	39%	35%
An accountant	39%	22%
A family member	13%	26%
A friend or colleague	13%	15%
A property group adviser	9%	4%
A real estate agent	4%	4%
I did not receive any advice	10%	15%
Can't remember	1%	3%
Other	9%	0%

Note: This is the data contained in Figure 3.

Table 9: Receipt of SOA, online survey (%)

Survey response	Yes	No	Don't know
A financial planner	79%	13%	8%
An accountant	47%	37%	16%
A property group adviser	59%	26%	16%
A real estate agent	52%	42%	6%

Note: This is the data contained in Figure 4.

Table 10: Receipt of SOA, members who paid for advice, online survey (%)

Survey response	Yes	No	Don't know
A financial planner	86%	8%	6%
An accountant	56%	29%	16%
A property group adviser	68%	18%	15%
A real estate agent	74%	21%	5%

Note: This is the data contained in Figure 5.

Table 11: Use of external help/advice in making investment decisions, online survey (%)

Survey response	Proportion of new members	Proportion of established members
A financial planner	36%	34%
An accountant	26%	22%
A family member	13%	22%
A friend or colleague	11%	15%
A property group adviser	11%	7%
A real estate agent	5%	6%
I did not receive any advice	23%	15%
Can't remember	1%	1%
Other	7%	2%

Note: This is the data contained in Figure 6.

Table 12: Cost of setting up and running an SMSF, online survey (%)

Survey response	Proportion of members
About as much as expected	59%
More than expected	32%
Less than expected	9%

Note: This is the data contained in Figure 7.

Table 13: Fees paid for advice when setting up an SMSF, online survey (%)

Survey response	Yes	No
A financial planner	83%	17%
An accountant	78%	22%
A property group adviser	59%	41%
A real estate agent	58%	42%

Note: This is the data contained in Figure 8.

Table 14: Amount of time spent on SMSFs, online survey (%)

Survey response	Proportion of members
About as much as expected	47%
More than expected	38%
Less than expected	15%

Note: This is the data contained in Figure 9.

Table 15: Whether an SMSF must have an investment strategy, online survey (%)

Survey response	Proportion of members
Yes	67%
No	19%
Don’t know	14%

Note: This is the data contained in Figure 10.

Table 16: Whether insurance needs were considered when setting up an SMSF, online survey (%)

Survey response	Proportion of members
Yes	72%
No	28%

Note: This is the data contained in Figure 11.

Table 17: Whether members are entitled to compensation for theft or fraud, online survey (%)

Survey response	Proportion of members
Yes	29%
No	30%
Don’t know	41%

Note: This is the data contained in Figure 12.

Table 18: Succession planning for SMSFs, online survey (%)

Survey response	Proportion of members
I have no existing arrangement for the SMSF should something happen to me.	30%
I have an existing arrangement with my financial adviser to take over the running the SMSF.	25%
I have an existing arrangement with one of the trustees to take over the running of the SMSF.	25%
I have already outsourced most of the running of my SMSF	16%
I have an existing arrangement with one of the trustees to wind up the SMSF	4%

Note: This is the data contained in Figure 13.

Table 19: Investments outside superannuation, online survey (%)

Survey response	Proportion of members
Yes	62%
No	35%
Don’t know	3%

Note: This is the data contained in Figure 14.

Table 20: Type of investment outside superannuation, online survey (%)

Survey response	Proportion of members
My own home	65%
Shares	50%
Other investment properties	45%
High interest savings account	17%
Collectibles (e.g. jewellery, art)	15%
Term deposit	15%
Managed investments	9%
Bonds	6%
Other	5%

Note: This is the data contained in Figure 14.

Key terms

Term	Meaning in this document
ABN	Australian Business Number
advice	Personal advice given to retail clients
advice provider	A natural person providing personal advice to retail clients on behalf of an AFS licensee who is either: • an authorised representative of an AFS licensee; or • an employee representative of an AFS licensee Note: This is the person to whom the obligations in Div 2 of Pt 7.7A of the Corporations Act apply: see key term definition of 'advice provider' in Regulatory Guide 175 *Licensing: Financial product advisers—Conduct and disclosure* (RG 175).
advice review	Review of client files, conducted by an independent expert, to assess whether advice providers were complying with the law when providing personal advice to clients to set up an SMSF
AFS licence	An Australian financial services licence under s913B of the Corporations Act that authorises a person who carries on a financial services business to provide financial services Note: This is a definition contained in s761A.
AFS licensee	A person who holds an AFS licence under s913B of the Corporations Act Note: This is a definition contained in s761A.
APRA	Australian Prudential Regulation Authority
APRA-regulated fund	Superannuation fund regulated by APRA
ASIC	Australian Securities and Investments Commission
ATO	Australian Taxation Office
cold call	An unexpected call or visit by an unknown person, trying to sell something
Corporations Act	*Corporations Act 2001*, including regulations made for the purposes of that Act
client	Retail client
DIY	Do-it-yourself
established members	Participants in the research who had set up an SMSF: • in the preceding 12 to 36 months after receiving personal advice (for the interviews); or • in the preceding 12 to 60 months (for the online survey)

Term	Meaning in this document
financial adviser (or financial planner)	An individual that is authorised to give personal advice to retail clients on relevant financial products.
financial product	Generally, a facility through which, or through the acquisition of which, a person does one or more of the following: • makes a financial investment (see s763B); • manages financial risk (see s763C); • makes non-cash payments (see s763D) Note: See Div 3 of Pt 7.1 of the Corporations Act for the exact definition.
financial product advice	A recommendation or a statement of opinion, or a report of either of these things, that: • is intended to influence a person or persons in making a decision about a particular financial product or class of financial product, or an interest in a particular financial product or class of financial product; or • could reasonably be regarded as being intended to have such an influence. This does not include anything in an exempt document Note: This is a definition contained in s766B of the Corporations Act.
financial service	Has the meaning given in Div 4 of Pt 7.1 of the Corporations Act
Government	Australian Government
GFC	Global financial crisis
interviews	The qualitative aspect of the member research, involving 28 ethnographic interviews conducted by the research agency in Sydney and Melbourne in mid-2017 to explore member experiences with SMSFs
market research agency	The independent market research agency commissioned by ASIC to conduct the member research
member	A member of an SMSF
member research	Research commissioned by ASIC in March 2017 from an independent market research agency, to explore member experiences with SMSFs. The research was a mix of qualitative research (interviews) and quantitative research (online survey).
new members	Participants in the member research who had set up an SMSF in the preceding 12 months (for the interviews, this was after receiving personal advice)

Term	Meaning in this document
online survey	The quantitative aspect of the member research, involving a 10-minute online survey conducted by the market research agency between June and July 2017 with 457 members who had set up an SMSF in the preceding five years
personal advice	Financial product advice given or directed to a person (including by electronic means) in circumstances where: • the person giving the advice has considered one or more of the client's objectives, financial situation and needs; or • a reasonable person might expect the person giving the advice to have considered one or more of these matters Note: This is a definition contained in s766B(3) of the Corporations Act.
property group advisers	See 'property one-stop shops'
property one-stop shops	A group of related businesses that provide SMSF establishment advice, SMSF investment advice, specific property advice, property finding advice and SMSF administration services
REP 337 (for example)	An ASIC report (in this example numbered 337)
retail client	A client as defined in s761G of the Corporations Act and Div 2 of Pt 7.1 of the Corporations Regulations 2001
RG 175 (for example)	An ASIC regulatory guide (in this example numbered 175)
s761A (for example)	A section of the Corporations Act (in this example numbered 761A)
SMSF	Self-managed superannuation fund
Statement of Advice (SOA)	A document that must be given to a client for the provision of personal advice under Subdivs C and D of Div 3 of Pt 7.7 of the Corporations Act Note: See s761A for the exact definition.

Related information

Headnotes

advice provider, AFS licence, APRA-regulated superannuation fund, financial product advice, general advice, misleading or deceptive advertising, personal advice, property one-stop shop, retail client, self-managed superannuation fund, SMSF, Statement of Advice, trustee

Regulatory guides

RG 175 *Licensing: Financial product advisers—Conduct and disclosure*

Legislation

Corporations Act, Div 2 of Pt 7.7A, s761A, 761G, 763B–D, 913B, 947D

Corporations Regulations

Reports

REP 337 *SMSFs: Improving the quality of advice given to investors*

REP 575 *SMSFs: Improving the quality of advice and member experiences*

Other references

ATO, *Self-managed super fund statistical report: June 2017*