SMSF Retirement Insights

Are trustees prepared for retirement?

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Our research shows how lower investment returns and proposed superannuation changes affect SMSF trustees heading into retirement.

For SMSF practitioner use only

Executive summary

The SMSF Association and Accurium have come together to present this extensive study of over 65,000 SMSFs looking at how retirement wealth of Australia's SMSF trustees has changed over the 2015 financial year. Based on Accurium's extensive database, it provides the first detailed figures to be released for the 2015 financial year and considers how well prepared SMSF trustees are for retirement.

The research also includes analysis of the impact of key superannuation measures proposed in the 2016-17 Federal Budget on SMSF trustees.

Retirement adequacy

- The median SMSF balance increased by 3.0% over the 2015 financial year, based on a median investment return of 4.2%. This is lower than the average return over the previous 5 years of 6.2% p.a.
- The current lower return environment means retirees need more in savings to achieve their retirement goals. Accurium's estimate of the amount a 65-year-old couple need in retirement savings to be reasonably confident[1] of affording a comfortable retirement[2] has increased to $702,000. Around 30% of SMSF couples have insufficient balances in their SMSFs to afford this lifestyle, up from 25% last year.
- 65 year-old SMSF couples with aspirations of a higher standard of living will need $1,886,000 in savings to be reasonably confident of affording $100,000 p.a. in retirement. The proportion of 65 year-old SMSF couples with sufficient assets in their SMSFs to support this lifestyle has fallen from 34% to 29% over the year.
- An analysis of the detailed retirement spending plans of SMSF households shows that the median desired spending level is $75,000 p.a. Around 30% of SMSF households plan to spend $100,000 p.a. or more in retirement.
- Helping to dispel the myth that SMSFs are commonly used as estate planning tools, our study found that fewer than one in five SMSF households included an explicit desire to leave a bequest in their retirement plans.
- Based on actual spending plans and household wealth, our study found that two in five SMSF households can't be confident that their retirement plans are sustainable. Only a third can be very confident that their desired spending levels will not see them outlive their savings.
- Our analysis revealed a clear correlation between the sustainability of SMSF households' retirement plans and their level of wealth, suggesting that the SMSF trustees in our study may not be adjusting their spending levels to match their means. This presents a real opportunity for SMSF practitioners to help their clients optimise their retirement plans.

Impact of 2016-17 Federal Budget changes

- Our study found that almost one in five SMSF trustees over the age of 65 have balances of over $1.6 million meaning they are likely to be impacted by the proposed retirement balance transfer cap. Around 8% of two member SMSFs have both members with balances in excess of the cap. Even so, for most SMSF trustees, keeping the excess over $1.6 million in accumulation is likely to be more beneficial than withdrawing it from superannuation altogether.
- Nearly a third of the SMSF trustees in our study made concessional contributions in excess of the proposed $25,000 cap. Of those trustees contributing more than $25,000, 70% already have balances in excess of $500,000 meaning that they cannot take advantage of the proposed 5 year 'look back' rule.
- Over 48% of the SMSF trustees in our study would have been affected detrimentally by one or more of the proposed superannuation changes, had they been in place for the 2015 financial year. With their higher average balances, SMSF trustees are likely to be most affected by the Budget changes.

To read the full paper visit www.accurium.com.au

1 'Reasonably confident' is defined as requiring an 80% probability of the required retirement spending level being sustainable for life, allowing for tax and Age Pension entitlements. To be 'very confident' of their retirement plans being sustainable, we assume SMSF retirees would want a 95% probability of not outliving their savings. See Appendix 2 for detailed methodology and assumptions.

2 As defined by the ASFA Retirement Standards.

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