

MEDIA RELEASE

## Lower investment returns stretch SMSF investment goals

**Sydney: 18 September 2017**

A weaker investment outlook that indicates returns will be lower for longer means SMSF retirees need more savings to achieve their retirement goals.

The amount needed for a 65-year-old SMSF couple to afford a comfortable retirement (as defined by ASFA<sup>1</sup>) has increased by 17% from \$702,000 to \$824,000.

However, 66% of SMSF trustees can remain confident (with an 80% probability) that they are well placed to live comfortably in retirement on \$60,063 a year, according to a new research report from the SMSF Association and SMSF retirement experts Accurium that examines the changing financial health of SMSFs.

At a higher spending level of \$70,000 a year, 50% can be confident of achieving this goal, while 39% can be very confident of doing so.

The report, titled *SMSFs Treading Water*, reveals that the median desired spending level in retirement for an SMSF couple is \$78,800, up from \$75,000 a year earlier. However, 24% of SMSF couples aim to spend over \$100,000 a year in retirement.

At an aspirational level of \$100,000 a year spending, 28% can be confident and just 20% very confident.

Another key finding is that the median balance for a two-member SMSF at retirement rose to \$1.137 million for the 2016 financial year compared with \$1.124 million for the previous year. SMSF median balances at retirement have risen 17% since 2010.

Contrary to the widely-held belief that bequests are central to SMSF retirement plans, only 7% of SMSF households have specific inheritance plans.

### Report highlights

- ◆ Despite small gains in balances, an investment outlook of lower returns for longer means many SMSFs need more savings to achieve their retirement goals.
- ◆ Median SMSF balances were up 1.2% for FY16, based on a median investment return of 1.0%; however, a weaker investment outlook means retirees need to save more to afford their desired lifestyles in retirement.
- ◆ The amount needed for a 65-year-old couple to afford a comfortable retirement has increased by 17% from \$702,000 to \$824,000.
- ◆ 66% of 65-year-old SMSF couples can be confident of affording a comfortable retirement, down from 70% in 2016.

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<sup>1</sup> ASFA Retirement Retirement Standard as at June 2017 – a comfortable lifestyle for a 65 year old couple requires spending of \$60,063 p.a.

- ◆ 28% of 65-year-old SMSF couples can afford to spend \$100,000 a year, slightly up on last year.
- ◆ More than half of SMSF retirees cannot be reasonably confident (80% probability) of achieving their desired lifestyle in retirement, although about 25% can be very confident (95% probability).
- ◆ One in four are unlikely (less than 50% chance) to achieve their goals.

SMSF Association Head of Technical Peter Hogan says the report highlights that most SMSF trustees are still on track to meet their retirement goals, despite a difficult investment environment and low interest rates.

“But for trustees and their specialist advisors, these are challenging times, especially on the investment front. From our perspective, this is why it’s critical superannuation has a sustained period of stability free from significant changes to give trustees greater confidence in the system.”

Accurium’s General Manager, Douglas McBirnie, said: “The upshot for the average SMSF household approaching retirement is that their improving balance has not been able to keep up with the increased cost of meeting their desired lifestyle in retirement.

“This is largely due to an increased probability of a ‘lower for longer’ situation where interest rates and equity returns remain low. This was reflected by the Reserve Bank noting in July that the neutral nominal cash rate, a key indicator, is now 3.5% rather than 5% previously.

“Even so, SMSF households are still better placed than most sectors of the community to meet their financial goals in retirement.”

The SMSF Association and Accurium study is the first report to provide detailed figures on how the retirement wealth of Australia’s SMSFs has changed post the 2016 SMSF annual tax returns.

Based on Accurium’s extensive database, it looks at how SMSFs have fared in the 2016 financial year and considers how well prepared trustees are for retirement.

The research report shows that although SMSFs are generally well prepared for retirement, lower expected investment returns means that trustees need to review their retirement plans to ensure their capital remains sufficient to support their retirement goals.

### **Research database**

Accurium’s research takes a probability-based approach which factors in more than 2,000 investment scenarios to show the capital levels required for trustees to retire with confidence of achieving the retirement lifestyle they want.

Statistical analysis is drawn from a database of over 65,000 SMSFs (approximately 130,000 SMSF trustees) which precedes the Australian Taxation Office’s Statistical Overview for 2016, which is likely to become available in late 2017.

Accurium’s dataset represents SMSF households who are phasing into retirement and, together with its industry-leading retirement health**check** model, gives unmatched insight into how well prepared SMSFs are to face retirement.

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## **About SMSF Association**

The SMSF Association is the peak professional body representing the self-managed superannuation fund (SMSF) sector which is comprised of close to 1.1 million SMSF members who have \$696.7 billion of funds under management and a diverse range of financial professionals servicing SMSFs. The SMSF Association continues to build integrity through professional and education standards for advisors and education standards for trustees. The SMSF Association consists of professional members, principally accountants, auditors, lawyers, financial planners and other professionals such as tax professionals and actuaries. Additionally, the SMSF Association represents SMSF trustee members and provides them access to independent education materials to assist them in the running of their SMSF.

## **About Accurium**

Established in 1980 and now part of the Challenger Limited group, Accurium provides a range of services to self-managed superannuation funds (SMSFs) in, or transitioning to, retirement with the help of accountants and other SMSF practitioners.

Accurium leads the SMSF market for actuarial certificates, placing it in a unique position to provide analysis on SMSFs in the retirement phase. Accurium supports more than 65,000 SMSFs which are paying pensions and thus require an actuarial certificate, giving Accurium access to an unrivalled amount of information on which to undertake research to assist accountants and SMSF practitioners provide quality service to their clients.

## **Further Enquiry:**

### **Accurium**

Megan Kaponas, Marketing and Communications Manager: 1800 203 123

### **SMSF Association**

Nick Way, PR Consultant, Shed Connect: 0409 585 979