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SMSF trustees troubled by benchmarking performance

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Ron Bird

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An information gap has emerged in the SMSF sector and members may not have the information required to effectively manage their retirement savings, according to new research by the University of Technology, Sydney.

Research presented by Professor Ron Bird at the UTS Investment Management Research Conference in Sydney last Friday found that improving the performance of their retirement savings fund was a key aspiration for members to adopt an SMSF, but many members were not sure whether they had actually achieved that aspiration.

"We asked our sample a series of questions about their aspirations when moving into an SMSF, and two interesting results came out of that," Bird told the conference.

"The main aspiration for members was that they thought they could achieve better investment performance, that was the main aspiration for switching. The other main aspirations all relate to control.

"When you look at the results, people are reasonably satisfied with their investment outcomes, but it also seems that they have no grounded reason for thinking that. They have no numbers or understanding of performance, and couldn't possibly make this judgement. The most worrying thing in the research was that we don't have any idea about how these funds perform, and perhaps we should."

Bird says members may not be aware of their fund's relative performance because their advisers don't tell them, or that the members are not equipped with the knowledge or tools to effectively calculate their performance.

"We asked the members that we sampled how they calculated performance, offering the options of total returns, fund balance, asset allocation, annual income to the fund and tax payable," Bird says.

"We found that about 45 per cent mentioned returns, but about one third of the respondents calculated the balance at the end of the year and used that as a benchmark for performance, not having any idea of how much money they've put in throughout the year.

"So, if the fund went up \$80,000 for the year the member may think that is a lot, despite having put in \$100,000 throughout the year. There is a lot of evidence here that these people do not have a good indication of what their returns are, or even how to calculate



so found that most members of SMSFs decided to open the fund because they wanted a greater level of control over their retirement savings, but many did not achieve greater control.



“Our research found that many people move into self-managed super funds because they want to have a greater level of control over their investments, particularly in regard to managing an equity portfolio,” Bird says.

“We then asked people how they are finding their current level of involvement in their fund, and a little over 40 per cent of former members of SMSFs believe that they do have a higher level of control over their retirement savings.

“Interestingly, we found that the majority of those who remained in an SMSF did not believe that they had a high level of involvement in their superannuation. It was quite a strange result”

Bird did clarify that the Australian Taxation Office (ATO) does conduct regular studies into the SMSF sector, but the results are largely drawn from asset allocations and not by specific investments or markets and the current performance of the SMSF sector is unlikely a reflection of strategic investments.

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