What SMSF investors need to know from royal commission

DIY super

Tim Mackay

The final report of the banking royal commission comprised 1069 pages spread across three volumes. For those counting, a grand total of 332,927 words.

Of those 332,927 words, only five related to self-managed superannuation funds (SMSFs). And those five related to defining an SMSF or giving background information on superannuation.

So it's fair to say SMSFs were not a primary or even secondary focus of Commissioner Kenneth Hayne's report. This is a great relief for SMSF investors – SMSFs weren't perceived as an area of concern and they won't be subject to major change from the commission's findings.

That said, the royal commission focused on financial advice and superannuation, two areas directly affecting SMSF investors.

In financial advice, the proposed reforms are all good wins for SMSF investors with a financial adviser. The royal commission will require your adviser each year to tell you in writing the total fees you will pay and what services you will receive. Forewarned with this knowledge, you can choose to renew your annual service. The power dynamic shifts to you, the client. As an adviser myself, frankly I find it embarrassing that this wasn't already required. It is the least you should expect of a trusted adviser.

When seeking professional SMSF advice, most of us would expect to receive independent financial advice. However, banks control many advisers' businesses and pay them commissions so they distribute their products. This model ensures the advice you receive is never truly independent.

Unfortunately for the average SMSF investor, it's hard to tell if the advice you receive is independent or not. This is where the royal commission will give you transparency.

In future, if your adviser isn't giving you independent financial advice, they must give you in writing a simple and concise explanation as to why their advice isn't independent, impartial and unbiased. Again, power shifts to SMSF investors who will better understand the nature of the advice they receive.

If you have old financial products in your SMSF that pay a trailing commission to some long-forgotten adviser, relief is in sight. These will cease "as soon as is reasonably practicable". The government has proposed January 1, 2021, to end this conflicted remuneration.

If you pay life insurance commissions in your SMSF, again, relief may be in sight. Once ASIC completes its 2021 review of life insurance commissions, the royal commission has recommended commissions be dropped to zero unless there is a clear justification for retaining them. So hopefully that will end another conflicted remuneration that SMSF members pay.

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On the superannuation side, the royal commission had two recommendations potentially affecting SMSF investors.

Hawking is a term that relates to unsolicited meetings or phone calls. It's annoying and nothing good ever comes from it.

Hawking is already banned but the royal commission has recommended tightening and clarifying the rules for superannuation (and hence SMSFs).

In future, unless you enter a phone call or meeting with the express purpose of discussing SMSFs or superannuation, it will be considered hawking. That should stop, or at least slow down, the SMSF spruikers.

The other interesting superannuation recommendation is that everyone will have one default superannuation account. Presumably, the Australian Tax Office will administer this via our tax file numbers.

It will be interesting to see how this affects SMSF members. I know from experience that many SMSF members have more than one superannuation account – they may have an industry fund account for life insurance or an employer-sponsored fund with staff benefits. So we will keenly watch how this reform will affect SMSF members who have a deliberate strategy of more than one fund.

Apart from these reforms, for most SMSF investors, life after the royal commission will be much the same. Instead, change will come from the shifting political dynamics in 2019.

If the government is re-elected, it will need to deal with the superannuation reforms flowing out of the Productivity Commission's recent report. But if Labor is elected, a whole raft of other reforms will need to be negotiated with a potentially hostile Senate.

For SMSF investors, the royal commission may have ended with a whimper. But I think it's safe to say 2019 will go out with a bang. SI

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