Why the tax man should stay out of DIY super: Gottliebsen

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The Australian Tax Office is talking about benchmarking the investment performance of self-managed funds. Have you ever heard of anything so silly?

Public servants in Canberra, with their government pension plans, have never understood why well over 30% of Australia's superannuation savings are in self-managed funds.

And the growth rate is so rapid that the proportion is likely to exceed 50% by the end of the decade. And so bemused tax officials think there must be tax rorting somewhere and reckon that somehow benchmarking performances of self-managed funds will unlock a tax bonanza.

I have no doubt that some people use self-managed funds in ways that involve tax rorts and many do not file returns for years. It's the job of the tax people to clamp down on those practices but there are much better ways of doing that than benchmarking performances.

The vast majority of self-managed funds are set up because the large fund managers are like so many legacy industries – they have not woken up to the fact that the game has changed. They are not thinking about the needs of their customers and place most emphasis on the commissions of the sales people and bonuses of fund managers.

I write regularly for Eureka Report and I have a self-managed fund. For a long time I have been suggesting to Eureka readers that they look very hard at the equity content of their self-managed fund and reduce it to levels at which they are comfortable. Younger people are likely to be much more comfortable with high levels of equity (say 60 per cent or higher) than older people who are likely to lose sleep with those levels of equity.

Self-managed funds make it much easier to tailor an investment portfolio to the needs of people and also give access to bank deposits, which have been offering up to 8 per cent in the last two years, although more recently they have slipped.

To illustrate that short-term "benchmark" performance is not always what superannuation investing is about, last week in Eureka Report I alerted readers to the availability of a 33-

year inflation protected annuity style security, where the income is not guaranteed but, like property rents, has a high probability of being achieved. Like all annuity-style securities there is nothing at the end. Over the 33 years, the return is low in the first nine years but is much higher in the following two decades. It is the long-term inflation protection that is key.

This is not a security for everyone but I plan to allocate a small portion of my fund in this direction and I know that it may depress returns in the first nine years (depending on inflation) and I have limited liquidity. Most professional managers of funds in Australia only think one year ahead so most in the professional space say don't go anywhere near the security. They don't think about some older customers to whom this can be a useful part of a portfolio balance, albeit with limited liquidity.

A self-managed fund allows you that flexibility. Tax people can help if they benchmark accounting fees etc but people who invest in self-managed funds tailor their portfolios to their needs – which may be high performance but may also be long-term income security. The tax man should get backing to collecting taxes.

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