House super's rocky ground

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AUSTRALIANS looking to join the popular trend of putting an investment property into their superannuation are being warned that time may be running out.

The strategy – which involves setting up a self-managed super fund and using a loan to complete the property purchase – is seen as too risky by a growing chorus of critics including former prime minister Paul Keating, the federal Opposition and super specialists. They say the booming SMSF sector, where loans for property investment jumped from $2.5 billion to $25 billion in five years, is no place for borrowing, particularly with real estate prices forecast to fall in the big cities.

Labor wants to ban the loans – known as limited recourse borrowing arrangements – and the Federal Government has not committed to keeping them.

SMSF Association head of policy Jordan George said the proportion of those property arrangements had climbed from 3.6 per cent to 6.9 per cent of all SMSF fund assets since 2014.

"It was coming from a very low base," he said. "At this point we have not seen any significant risks coming thorough – but it's important to keep reevaluating what's happening."

Mr George said it was clear a future Labor government would stop borrowing in SMSFs, whose 1.1 million members already felt "under attack" after Labor's move last month to scrap tax refunds from share dividends for retirees.

"It's an opportunity for the government to differentiate themselves and stand by the side of self-managed super funds," he said.

Minister for Revenue and Financial Services Kelly O'Dwyer said the government had commissioned a report into borrowing and risk in the super system, due later this year.

Ms O'Dwyer was more scathing of Labor's new "retiree tax" plan, setting the scene for super and investment to become a key battleground at the election.

"When we should be using retirement income policy to help people be more self-reliant, their policy will put more pressure on the old age pension," she said.

This month Mr Keating, an architect of Australia's super system, told a financial forum that allowing super funds to borrow and get into debt was "very bad".

"It should never have happened. I have always been opposed to it and it is an accident down the road, for certain," he said.

Financial strategist Theo Marinis thinks Mr Keating is right. "It's putting risk inside super that should never have been there," he said.

"It can blow up your portfolio. Because property has done so well for so long, people start to believe it never goes down."

Mr Marinis said while he did not advocate borrowing in SMSFs, anyone "really wanting to do it better get in quick".

SMSFs can have up to four members, usually from the same family who often pool their money. Most super fund members already have property exposure through their default balanced funds.

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