

COVER STORY

No longer boxed in

More people are dumping big institutions to handle their own super. **Barbara Drury** looks at what it takes.



Australians have always loved to brag about their home, their kids, their cars and their footy team. Lately they have also taken to flashing their new phone apps. But in some circles the new measure of status, casually dropped into conversation around the dinner table or on the golf course, is a self-managed super fund.

Self-managed super is the fastest growing segment of the superannuation industry. At the end of 2009 there were 422,000 of these small funds with total assets of more than \$372 billion – that's about one-third of Australia's super pool.

Clearly, as the super industry matures and the average balance grows, more people are opting out of large one-size-fits-all funds to chart a financial course of their own.

Meg Heffron, of the self-managed super specialist Heffron, says people who run their own fund most often say

probably the most appropriate structure – but it's not for everyone," Nemtsas says. While it is generally accepted within the super industry that you need at least \$200,000 to make having your own fund cost-effective, Nemtsas rarely sets one up for less than \$400,000-\$500,000.

"We find a wrap account is cheaper than a self-managed fund [for lower balances] and they do all the administration for you. As cost structures, self-managed funds are not always the cheapest option because of their fixed costs," he says.

As a general guide, expect to pay about \$1000-\$1500 to set up a fund with a corporate trustee, less for individual trustees; \$500 for a trust deed; and \$2000-\$2500 a year in administration and audit fees.*

Say you have \$100,000 and want to set up your own fund; that's about 4 per

cent alternatives, especially if you have the capacity to increase your assets fairly quickly. "For me, one of the biggest benefits is that you really have an [investment] platform for life," she says.

Many retail and industry funds offer the ability to stay with the same fund from the accumulation phase to the retirement pension phase but not all funds do so.

And conventional platforms such as wrap accounts offered by a particular institution can be inflexible.

"If you change advisers they may use a different wrap provider, or if you don't use an adviser but decide you no longer want a wrap you have to sell everything, pay capital gains tax and roll over into something else.

"But if you run a self-managed super fund you can take it to a new adviser and keep the same investments. Given the substantial tax benefits associated with managing the timing of any asset

disposals, this is an extremely important advantage [of a self-managed fund]," she says. While running your own fund offers a high degree of control and flexibility, it's not open slather.

The sole purpose of the fund must be for retirement; you must have an annual compliance and accounting audit done by a professional; and lodge an annual tax return.

You also need an investment strategy and must be careful not to breach restrictions on certain types of transactions and assets. (See breakout on regulatory changes, Page 6.)

A self-managed fund can have up to four members who must also be trustees of the fund or directors of a corporate trustee. The typical fund is run by a husband and wife who are both members and trustees.

And while self-managed funds are easy to set up, they are harder to wind

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The more money you have to invest in your self-managed fund, the cheaper it is to run on a percentage basis.

the benefits of doing so are control, flexibility and cost once you have a certain level of assets.

But a self-managed super is not for everyone. So what does it take to run your own fund?

"You need a sufficient balance, time and inclination, and you need to be someone who is relatively well organised," says a financial adviser with Lachlan Partners, Jamie Nemtsas.

"[Self-managed super] is a good structure if you're a keen investor with a good amount of capital – if you have more than \$1 million in super it's

cent of your fund balance in the first year and 2 per cent ongoing, compared with average annual fees of about 2 per cent for a retail fund and 1 per cent for industry funds.

However, if your fund has a balance of \$1 million then your costs, as a percentage of your fund balance, would be one-tenth of that. In other words, the more money you have to invest in your self-managed fund, the cheaper it is to run on a percentage basis.

However, Heffron says a self-managed fund may still be the way to go even if they are more expensive than the

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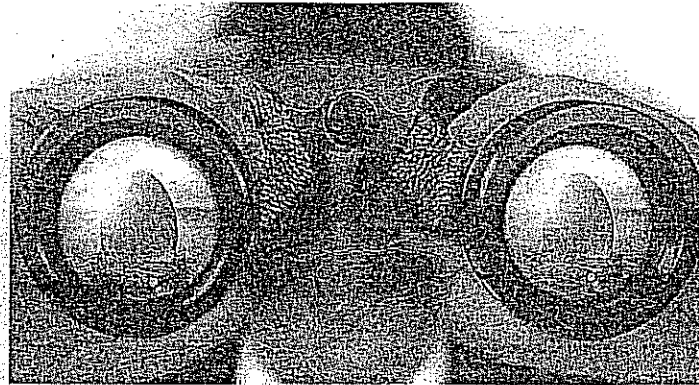
up than public offer funds. "A lot of people set up a fund for the wrong reasons. We get a lot of clients aged 50 to 65 come in and want to set up a self-managed fund and run their own money. But after five years they have seen markets go up and down and they don't want the stress and responsibility of managing it any more.

"It can be as much of a problem as a benefit," Nemtsas says. Some retirees treat their self-managed fund as a hobby and spend endless hours locked away in their study tinkering with their investments. At a minimum, you probably need to spend an hour or two a month on administration and longer at the end of the tax year to document your tax return.

A good accountant or financial adviser can save you time and provide a sounding board for investment decisions but you need to factor in the additional cost.

However, even their most ardent supporters admit that some people should not have a self-managed fund. Heffron puts people who don't want to think about their super in this category, because even if they are prepared to pay other people to manage it for them the ultimate legal responsibility rests with the trustees.

If you have access to a good corporate fund you may enjoy benefits such as cheap insurance not available through self-managed super. Similarly, someone with insurance in a public offer fund



and a pre-existing health problem may not be able to arrange the same terms and conditions in a self-managed fund.

The nature of the investments you choose will also determine whether it's worth flying solo.

If you want to hold direct property in super then a self-managed fund is the only way to do it. This has been made easier in recent years with an easing of the rules covering gearing within super and the use of instalment warrants to achieve this.

By contrast, if you want to invest mostly in direct shares you can do so via a retail super fund, wrap account or even an industry super fund.

This is when other factors such as costs, time and administration will determine whether you want to run your own fund.

Self-managed super is often touted as a tax-effective way to arrange the transfer of wealth from one generation to the next and there are many advisers willing to give complex legal and tax advice on the issue.

However, Heffron says strategies for leaving super reserves to adult kids may create more problems than they solve. "People should probably look at self-managed super as a one-generation vehicle," she says.

For further information on setting up a self-managed fund check out the ATO website ato.gov.au/super and ASFA's superguru.com.au.

* For an online comparison of administration services and charges see the SMSF Review at thesmsfreview.com.au

Regulatory changes

After an anxious wait for the Henry tax review and the Cooper super review to deliver their verdict, and the government to pass sentence, investors with their own self-managed super funds have breathed a collective sigh of relief.

"For the majority of funds it's still business as usual," says the technical manager at ING Super Concepts, Graeme Colley.

Unless of course you want to use your fund to invest in exotic assets such as art, wine, classic cars, stamps, coins and antiques or to lend money to a business run by family or its own members. The Cooper review recommended banning these practices.

Colley estimates less than 1 per cent of funds will be affected by the exclusion of exotic assets but the use of related party investments is more pervasive. While frowned on, investors have been able to get away with them if they represent no more than 5 per cent of the total fund value.

In addition, last month's federal budget clarified the rules covering the use of instalment warrants. These are popular with self-managed funds as a means of getting around restrictions on borrowing with super.

The new rules make it clear that there will be no capital gains tax liability when the asset is transferred into your super fund.

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