

It takes a crowd to run a super fund

A few people can run a DIY super fund by themselves. The rest of us require the help of professionals, writes **John Wasiliev**.

Running your own do-it-yourself superannuation fund may well give you the investment control you desire, but you should be aware that the "DIY" part of the scheme is something of a misnomer, unless you are an auditor, investment professional and regulatory expert all rolled up into one.

Asset allocation, financial advice, brokerage, auditing, preparation of accounts and investment management are some of the tasks that go with running a self-managed fund.

The extent to which these are outsourced to third parties or undertaken by the trustees can have a large bearing on the annual cost of running the fund.

In some cases, particularly where the balance may be small, it may be more expensive to operate a self-managed fund than join a pooled vehicle.

Martin Heffron, of DIY fund administrator Heffron, argues a serious examination of issues such as how a fund might be run and how much it might cost should be part of the fund establishment process. Heffron warns that many people underestimate the amount of work that can be involved in operating a fund.

The majority of funds rely on professionals to help manage their affairs. It is very much a minority of funds that are genuinely DIY, using only a fund auditor.

According to Alan Dixon of super fund administrator Dixon Advisory and Superannuation Services, trustees who are prepared to do a lot of the work themselves should be able to run a fund for between \$1500 and \$3000 a year.

At the other extreme, for those who want most of the work done for them, the cost is likely to be between \$5000 and \$15,000, depending on the size of the fund,

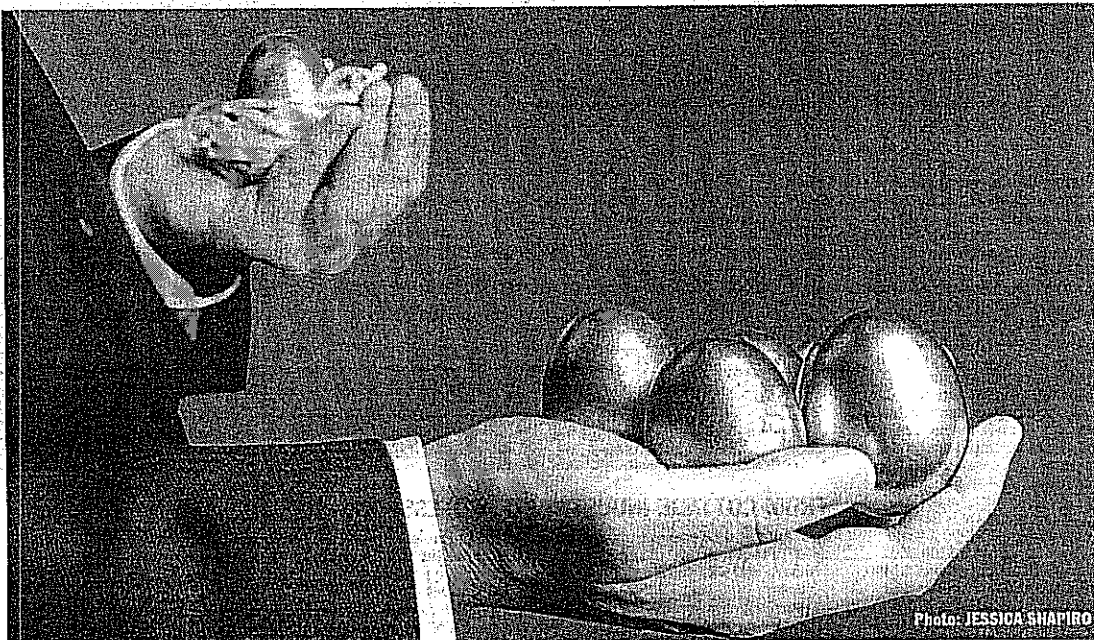


Photo: JESSICA SHAPIRO

how active the members are as investors and whether the fund is in the accumulation or pension phase.

Between the full service and true do-it-yourself models, there is a third model, under which trustees divide responsibilities between themselves and service providers in varying proportions.

The Cooper review estimated that DIY funds spent an average of \$6500 on operating expenses in 2008. If this sounds like a lot, the upside, notes Dixon, is that at least trustees have the scope to match what they are prepared to do with what they are prepared to pay for.

The trade-off is time spent running the fund. This can range from an hour a month to several hours a week.

There are those who spend an hour or more a day, almost treating their DIY fund as a job, he says.

Even those who do outsource most of the functions must still be

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Martin Heffron of Heffron

prepared to be closely involved.

Decisions about investments to make, when to take a pension and how much to draw down, how much to contribute to super and aspects of estate planning must ultimately be made by the trustee, albeit upon receiving advice.

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Even then it makes sense to be in a position to add some \$20,000 a year to the scheme, argues Heffron, given the amount of fixed costs involved.

A study by the Cooper panel found that of funds with less than \$200,000, nearly one-fifth pay more than 5 per cent of assets under management in fees every year — far higher than industry standards.

DIY funds are most cost effective once assets have increased to \$500,000.

The basic fund set-up costs for a

DIY fund can be anything from around \$500 to \$2000 for a trust deed, with the higher expense for funds that have a corporate trustee.

After that it will depend on how much trustees are prepared to do themselves and how much they wish to outsource to professionals.

Full service administration

A fully serviced DIY fund can have an administrator that does literally everything from opening the fund's mail, preparing all the accounts and activity statements, keeping an up-to-date portfolio online and organising the audit. If a fund wants to start a pension, all that is required is a simple instruction.

Don't underestimate the task of opening your own mail. It may mean having to make decisions about accepting a rights issue or a takeover offer and filing your

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dividend statements and keeping track of dividend reinvestment plans.

Administrators that provide these services include Cavendish, Heffron, Dixon, Multiport and Super Concepts, owned by Australia and New Zealand Banking Group.

You would be advised to shop around. Unfortunately, charging structures differ from firm to firm.

Multiport, for example, offers daily online services where fees are charged monthly depending on the fund value and whether the administrator or a separate accountant does the financial accounts.

These services, known as SMSF Ultimate, can cost up to \$330 a month for a fund with more than \$1 million plus between \$350 and \$550 for an annual audit.

The audit will be contracted out to an independent firm.

Dixon charges a percentage of assets under management.

For full administration of the fund, including accounts, minutes, handling of mail, tax returns, audit and all other compliance issues, commencing pensions, making withdrawals and spouse splits, the fee is 0.99 per cent, including GST.

The minimum fee is \$1490 and the maximum is \$4990 a year.

This means that a \$100,000 scheme will attract a fee of \$1490, while a \$1 million fund will be required to pay \$4990.

A fund with \$300,000 of assets will be charged \$2970.

Trustees still make the final decision about investments, although they can get professional advice about investment selection and asset allocation.

Many of the administration firms also have advice arms.

Advice on investment strategies could cost about \$350 an hour.

An annual pension review, which includes a review of withdrawals, will cost an extra \$200 a year.

SuperGuardian, based in Adelaide, charges fixed fees based on the number of assets in the fund for its service, which takes in investment reports, financial statements, mail opening and correspondence that requires trustee attention being forwarded to trustees.

The audit is charged separately. A fund with 10 assets or fewer will pay \$1890 a year, a fund with between 11 and 20 assets will pay \$2480 while a scheme with between 21 and 30 assets will pay \$2950.

Administration and advice

If the trustees decide to get advice through a financial planner, they can expect to pay a percentage, usually about 1 per cent, of assets under advice.

For this, they receive advice across a whole range of investments and life insurance products.

Some financial planners will use administrative services such as Multiport and Super Concepts, but many will use "wrap" administrative platforms, offered by banks such as Macquarie Group and Westpac Banking Corp-owned BT Financial Group.

These offer an array of investment products recommended by the platform provider as well as accounting services.

The investment scope is more limited on a wrap.

You can't put artwork or a property into a wrap.

In addition to the advice fee, the platform fee is likely to come in at between 0.5 of a per cent and 1 per

Five things you should know before you choose service providers

1 The big question is how much you want to do yourself. You need to decide if you want a once-a-year service, where you give a specialist all your paperwork at the end of the tax year so they can prepare a tax return, as well as arrange accounting, compliance, and audit. Or you might want to outsource the administration on an ongoing basis and receive up-to-date portfolio details.

2 If you plan to be an active investor, this could involve extra

costs in terms of higher brokerage fees as well as higher administration fees. Most administration providers will charge extra for a larger number of trades or assets.

3 If you are more inclined to invest in managed funds than direct shares, you may be better suited to a wrap service, a type of administrative platform operated by banks such as Macquarie and Westpac.

4 You need to be aware that different providers charge in different ways. This makes shopping around worthwhile. Providers can charge according to a percentage of fund assets or a fixed fee plus fixed costs for a pre-determined number of investments or transactions. Some services might include various costs that others will charge extra for.

5 Be aware what it will cost to move to pension phase, which eventually all funds do. As well as paying extra to have a pension set up, there may also be additional annual fees.



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FROM COTTAGE INDUSTRY TO PROFESSIONAL SPECIALISTS

For many years the administration side of the \$400 billion do-it-yourself super sector was largely a cottage industry.

Administrative services were provided mainly by accountants, who each year accepted a proverbial shoebox of records each from their DIY super clients and embarked on an often time-consuming annual process of preparing audits and annual tax returns.

While most do a reasonable job, they face challenges that include correcting mistakes often well after the event that are increasingly being targeted by the Australian Taxation Office, which regulates self-managed schemes.

Shoebox DIY super administration can be a less-than-perfect world.

At the other end of the spectrum is a small but growing band of specialist organisations that are making a serious business of servicing the DIY sector by applying the latest in e-commerce technology.

Offering services such as daily investment portfolio updates and constant compliance monitoring through the internet, they are the DIY super models of the future and are helping to make the sector more professional.

While these organisations have a high profile, they probably account for only 10 to 15 per cent of the 430,000 self-managed funds. But they are set to multiply in number.

cent of assets under management. Trustees will still need a separate auditor.

The financial planner will often recommend one.

Administrative companies such as Dixon offer advice, too.

In addition to the 0.99 per cent administration fee, Dixon will offer financial strategy advice, including advice on how much to contribute to super, how much to salary sacrifice, how to structure a fund to reduce tax, how to manage risk and insurance.

These services are charged on an hourly basis, with the fee typically being \$440 an hour.

Depending on the complexity of the fund, a trustee can expect to pay between \$3300 and \$8800.

Trustees seeking further advice on actual investments can expect to pay 1.1 per cent brokerage fees, with a minimum of \$82.50 a trade and a maximum of \$399.

Being more professional and competent are key principles set down by the Cooper super system review.

Jeremy Cooper, who headed the report, recommended a series of reforms to the retirement system to ensure it works more effectively.

Graeme Colley, of ING Australia, says if all the Cooper review recommendations are accepted by government, the increased use of e-commerce could either reduce the costs of professional DIY fund administration or at the very least keep them at their present levels.

Ernst & Young predicts that if measures such as consolidating accounts, electronic transfers and removing legislative barriers are introduced, the cost of operating a self-managed scheme could fall by up to 10 per cent.

One aspect of super administration that is being emphasised by Cooper, says Colley, is more common elements between service providers that could make it easier to compare and assess services.

If this can be achieved, says Colley, it may result in many current DIY funds that do a lot of their own administration switching to more efficient administration services.

If there is one major DIY super issue that has been highlighted by government studies like the Cooper review, says Louise Blit, a director of financial services researcher Strategy Steps, it is that government has finally

acknowledged that DIY super is a legitimate sector in its own right.

This is in sharp contrast to 2007, when the Rudd government came to office. At the time, the government gave the distinct impression it considered the pooled sector more legitimate than self-managed schemes.

DIY critics expressed concerns that self-managed super was like a runaway freight train that needed to be brought to a halt. And as the DIY sector grew to occupy a third of the \$1.3 trillion industry, large funds felt threatened.

But the government has changed its tune and recognises that the DIY sector, with more than 800,000 trustees, is here to stay.

That said, it is likely to attract more scrutiny in the future as balances continue to rise, something that both fund members and service providers will need to get used to, says Blit.

For both funds and service providers it means a lot more pressure to do the right thing.

This may well increase the demand for full service providers.

The regulator is unlikely to be as tolerant about such matters as late tax and regulatory returns, says Kevin Sudlow, accounting and tax manager with DIY super administrator Multiport.

Late lodgers are already being required to submit future returns earlier, in addition to facing penalties.

Funds are also becoming more complex. Sudlow says many DIY funds are constantly asking about unusual strategies.

Recently a trustee asked if the fund could buy a taxi plate as an investment.

Sudlow says an increasing number of super strategies such as buying specialised investments or borrowing to invest need particular structuring that can create problems if not organised properly.

These problems can be compounded if the strategy was implemented incorrectly and not picked up months later when the fund is audited.

It will, however, require people to become more familiar with how administrators charge for their services.

As with Multiport, ING's Super Concepts DIY administration service offers once-a-year, quarterly or daily services.

Various aspects of the service like portfolio reporting, advice, accounting, tax and auditing can come either bundled or offered separately.

Colley says this allows people to make choices because not everyone wants the same level of service.

He notes that one area of DIY super vulnerable to higher costs is audit services, saying requiring auditors to be registered could well push prices higher.

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Basic services

At the real DIY end of the scale, says Dixon, are trustees who take care of their own mail and may use an online broker for their share investments. Trustees of so-called in-between funds might seek help with their paperwork, or when starting a pension, or if they need investment advice.

Multiport offers an annual service where the basic cost for a simple fund, excluding the audit, can be less than \$1000 a year.

There is an extra \$350 for the annual audit, which will be completed by an independent firm.

If a trustee of a simple fund — with less than 10 assets — requires Multiport to do the tax return and preparation of financial accounts, the fee will be \$1600, plus audit costs. Larger, more complex funds — with more than 20 assets and at least one member in the pension

phase — will be charged \$2400 plus the \$350 audit fee.

Super Concepts has a service where it prepares the fund accounts and facilitates the audit through a panel of independent auditors.

Fees for the service depend on the amount of time taken on the fund, but the average for an accumulation fund is \$1645. The average fee for a pension fund is \$2000.

Super Concepts also offers a service called SuperTrack, which includes online portfolio reporting in addition to accounting, reporting and audit services.

The minimum fee is \$2640 a year. The maximum is \$8910 for funds greater than \$2 million, although direct property investments are excluded from the fund balance and treated separately.

A flat fee of \$660 applies per property. According to Super Concepts, the average fee is \$3734 a year.