



Self-managed superannuation is the fastest growing sector of the retirement funds industry. Jackie Pearson finds out what all the fuss is about.

The closer we get to retirement, the more interested we are in our superannuation. In our 20s and 30s, our super fund account balance doesn't really seem relevant to our day-to-day life. If anything, we look at that money locked away until retirement age and think about all the things we could use it for now: travel, a home, educating the kids, paying off the mortgage. But as retirement approaches, that balance takes on increasing significance – after all, it's the nest egg our retirement lifestyle will depend upon.

When the global financial crisis hit, many people were confronted with the shock of seeing their super balances shrink. Some investors with high exposure to equities and international markets experienced substantial losses in 2007 and 2008.

The pain was felt most acutely by those with less than 15 years to retirement. For some, the promise of a comfortable retirement retreated into the distance.

It's no coincidence that interest in self-managed super has skyrocketed since the financial crisis.

Self-managed super funds now account for more than 30 per cent of all super assets in Australia and

continue to be the fastest growing sector within the industry.

"When there's a downturn in the market, the SMSF sector picks up in growth because people receive their statements from their non-SMSF providers, see negative returns and decide they can do it better themselves" says Ben Smythe, director of sales and marketing with SMSF administration specialists Heffron.

For some people, the GFC was the first time in years they'd paid close attention to their super statements. They discovered mediocre investment performance compounded by high fees – including trail commissions paid to financial planners who hadn't provided them with ongoing services.

"The industry is maturing, so more people have more money in superannuation and as a result the issue of control comes in – and as the asset gets bigger, people like to take more interest in their superannuation and more control," Smythe says.

The benefits

Greater control is definitely one of the key motivations for moving to self-managed super. SMSFs can provide members with control over the range of investments, the fees being paid and their tax bill.

WHO HOLDS THE POWER

In working out individual attitudes to investment, it's useful to understand why people might set up a self-managed super fund in the first place. This is something a recent Russell Investments survey tried to identify and it came up with quite a range of reasons.

The most obvious group of people who could take the self-managed route is what Russell calls the "controllers" – people who want to do things their own way. Many in that camp have already taken the plunge into an SMSF.

Russell Investments reckons the group with the biggest potential are "coach seekers" [investors who want to be advised], which it believes represents 30 per cent of the super investing population but only one quarter of whom have so far gone the self-managed route.

If this group gravitates towards self-managed super it will have major ramifications – further supporting the growing number of businesses that give self-managed super advice without actually holding the funds.

Chris Wright

I ♥ DIY

This control includes having access to a wider choice of investment options than usually available using an “off-the-shelf” super fund. These include corporate bonds, managed investments, listed shares, listed investment companies (LICs), exchange-traded funds (ETFs) and direct property.

There’s evidence SMSFs can deliver superior performance and lower costs. The federal government report by Jeremy Cooper, *A Statistical Summary of Self-Managed Superannuation Funds*, which examined data from the Australian Taxation Office and the Australian Prudential Regulation Authority, found SMSF members generally paid lower fees and, on average, they performed better than all other superannuation funds during the three years to June 30, 2008.

Flexibility is the other key benefit of DIY super. It means your account stays with you wherever you go. So long as you remain within the framework of Australia’s superannuation laws, an SMSF gives you flexibility to invest your retirement savings where you like.

An SMSF also gives you maximum flexibility when establishing and managing pensions, including account-based, transition-to-retirement and term allocated pensions. It can give you greater flexibility when it comes to accessing Centrelink benefits such as the government age pension.

You can transfer personally owned listed shares and managed funds directly into an SMSF. It’s also possible to own “business real property” (property used wholly and exclusively for business) within your fund.

In addition to wider investment choice and greater control, SMSFs enable you to take full advantage of tax and super law changes as soon as they come into effect. You don’t have to wait for a large, one-size-fits-all fund to make new investment opportunities available.

SMSFs arguably have even more tax benefits than off-the-shelf offerings, when you consider the ability to segregate accounts and to share imputation credits.

They provide families with a way to pool their resources and grow their

wealth together, and they offer tax-effective strategies for the transfer of wealth between generations that may not be available through conventional super products.

If you have a larger account balance, an SMSF can be better value for money than a commercial fund where asset-based fees increase in line with your balance. An SMSF gives you control over costs.

Who should have one?

“You should only consider an SMSF if you’re attracted to the advantages,” Heffron’s Smythe says.

“A lot of people are driven to an SMSF because of public perception, not really understanding what they’re getting into.

“But people should really only go down the SMSF route if they’re attracted to those advantages of control and flexibility.

“It does come with obligations.

“If you have an SMSF you are the trustee, you are the one responsible for the operations – you really need to take the job seriously.”

TIPS AND TRICKS

1.

Choose investments carefully

Think about the needs of your members, their ages and the level of risk they’re comfortable with – and don’t forget the fundamentals of investing, such as diversification.

2.

Stay on the right side of the law

If you want to retain access to the significant concessions that come with super, you must adhere to the relevant tax and super laws, particularly those that relate to the sole-purpose test and related-party transactions.

The taxation, trustee and superannuation rules you'll have to adhere to are complex and this can be time-consuming.

Setting up your own SMSF means you'll either be its trustee or a director of the company that is the corporate trustee for the fund. Either way you'll be legally responsible for decisions, even if you get professional help.

The wheels can easily fall off an SMSF if you don't take the associated legal requirements seriously or you simply don't understand them. Some of the key rules include ensuring money in your SMSF is invested for the "sole purpose" of accumulating savings for retirement. The funds can't be used for your personal benefit.

There are strict rules prohibiting SMSFs from acquiring assets that are for personal use or from making "related-party" transactions. Breaching these exposes you to strong penalties.

Strategy is all-important

Taking the time to develop a sound investment strategy is essential if you want your SMSF to be a success. It's

OK to walk out on your off-the-shelf fund, thinking you can do a better job than its professional investment managers, but this could turn out to be more work than you think – particularly if you have limited investment knowledge or experience.

Getting the investment strategy right is one reason increasing numbers of DIY trustees turn to experts for guidance on administration, compliance and investment choices. As the SMSF sector grows, more and more intermediaries are setting up shop to provide "specialised" services to DIY fund trustees.

The number of professionals specialising in SMSFs is growing and the good ones can provide a range of services, including advice on whether an SMSF is right for you, how to set up a fund, your investment options, the risks involved, and how to administer your fund properly so it complies with all the relevant rules.

If you're time poor or don't believe you have sufficient expertise to run a fund properly yourself, you may turn to one or more of the following:

3.

Be wary of scams

Dodgy operators may offer to get your super out of your existing fund early, usually for illegal or fraudulent purposes. Heavy tax and legal penalties can apply if you're caught in one of these schemes. You won't be entitled to compensation under super law if your SMSF suffers from fraudulent conduct or theft, either.

4.

Meet your compliance and administration obligations

Your fund must be audited annually, for example. If you don't have the confidence, as trustee, to do this alone, consult experts such as financial advisers and specialist SMSF administration providers.

HOW MUCH WILL BE ENOUGH?

People often ask what sort of fund balance is needed to make it worthwhile setting up an SMSF. Russell Investments research shows one in four trustees have an SMSF balance of more than \$1 million and a further quarter have a balance between \$250,000 and \$550,000 in assets. Only one in seven said they had less than \$250,000 (clearly, some respondents declined to specify their balance).

That cements the idea that \$200,000 or thereabouts – the figure proposed by the federal government as a minimum for an economically viable self-managed fund – is the floor.

In the Russell survey, the average amount considered a minimum by advisers was \$241,280. Leyland Private Asset Management suggests about \$200,000 for an SMSF to be viable, taking into account fees and the work involved in being a trustee and managing a fund.

"Assuming they've got the size, I think it's a sensible move – it gives them flexibility," says Leyland founder Charles Leyland.

"They can pick their own fund manager, or open an IMA [individually managed account], or go through an online broker.

"If they're so inclined, they can save a lot of money by managing themselves."
Chris Wright

Accountants: If your accountant doesn't have an Australian Financial Services Licence (AFSL), they'll only be able to advise you on the establishment, operation, structuring and valuation of a self-managed super fund. They need an AFSL to be able to give advice on whether you should switch your super savings into an SMSF and, if so, what your investment strategy should be.

Licensed financial advisers: Advisers with an AFSL can help develop your SMSF investment strategy and assist with individual investment selection.

Administration platforms: These services can help you set up and structure your fund, including the trust deed, investment strategy and the transferring of money from your existing super funds. The platforms provide ongoing administration and compliance so your fund fulfils all Australian Taxation Office regulations about reporting and financial management.

How an SMSF works

Your SMSF will be structured as a trust with an extra layer of rules flowing from superannuation law. All members or beneficiaries must be trustees, and all trustees must be members and, as such, beneficiaries.

Your super fund must have its own bank account and a trust deed. The trust deed is, in effect, the rules of operation. It sets out who can be a member, how they're admitted as a member, what the fund can invest in and who can receive a death benefit.

Under the sole-purpose test, SMSFs must be established for one reason only – to provide benefits to fund members upon retirement (or to pay a death benefit to dependants if the member dies before retirement).

SMSFs must have fewer than five members. No fund member can be an employee of another fund member, unless they're related, and trustees can't be paid for their services as a trustee. If you decide to use a corporate trustee, each director of the trustee company must be a fund member and each fund member must be a director of the company.

Generally anyone over the age of 18 can be a trustee of a super fund, unless they're a disqualified person – due to a criminal conviction, civil penalty orders under the Superannuation Industry (Supervision) (SIS) law or because they're an undischarged bankrupt.

The requirement that all members be trustees ensures each member is fully involved in the decision-making and the proper management of the fund. This should ensure the fund is operated honestly and prudently in the best interests of all members.

Will you be better off?

If you're not confident you can get a superior result by putting your super in an SMSF, you may be better off leaving the job to the known professionals.

You also need to have sufficient savings to make your fund economically viable. The costs of establishing and running a fund can vary significantly but, as a general guide, it costs about \$2000 a year to run a medium-sized fund.

All SMSFs are subject to an annual supervisory levy of \$150, designed to fund the regulatory costs of making sure funds comply with their obligations. Consider how you'll finance benefits such as income protection and life insurance, which off-the-shelf funds make available, sometimes at a significant discount. **Si**

QUICK FACTS

1.

The SMSF sector is Australia's largest superannuation sector by number of funds and by assets. As at September 30, 2010, there were about 434,000 SMSFs, with more than 830,000 members.

2.

While SMSF members represent just under 3 per cent of the 32 million superannuation accounts, they own about 32 per cent of all superannuation assets.

3.

The SMSF sector has experienced rapid growth in recent years, tripling in size from \$132 billion to \$393 billion in the five years to June 30, 2010.

4.

Compared to members of other types of super funds, SMSF members are on average older, earn higher incomes and have larger super balances – nearly \$488,000 each as of June, 2010, says APRA.

5.

The majority of SMSFs – about 71 per cent – are structured with individuals appointed as trustees, although an SMSF can also be structured with the appointment of a corporate trustee.