Self Managed Supers' Clean Bill of Health

What's Holding You Back?

In February of this year, Jeremy Cooper, chairman of the Super System Review (entitled "the Cooper Review") addressed a conference of superannuation professionals in Melbourne at which he made the observation that *"self managed superannuation funds (SMSFs) may be the way of the future as more people seek more information and control over their retirement savings".*

It was particularly interesting to hear this from the man charged with undertaking a comprehensive review of Australia's superannuation system, focussing on its governance, efficiency, structure and operation.

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Jeremy Cooper's view was reinforced in the final report into Australia's Super System, submitted midyear to the government, in which the Review Panel concluded that the SMSF sector was largely successful and well-functioning.

The Review Panel focussed on some issues, which, for the most part, did not directly relate to trustees and members,

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but instead to service providers to SMSFs and the wider regulatory framework.

Some SMSF Facts for Starters

As at June 30th, 2010, SMSFs already held the largest proportion of superannuation assets accounting for 31.9% of assets, according to APRA (the Australian Prudential Regulation Authority) followed by retail funds with 27.7% and next, industry funds with 18.4%.

In terms of the composition of these funds, the ATO (Australian Taxation Office) which regulates SMSFs, provides regular statistics which show:

- SMSF numbers have increased approximately 50% in the past 5 years (from 290,000 to 430,000)
- some 90% of these SMSFs are either 1 or 2 member funds
- based on the latest quarterly data, the fastest growing segment are those in the 35-44 age bracket and
- the average SMSF balance is now some $900,000 (and still growing)

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Why a SMSF may not be for you ?

The most common reasons put forward for not pursuing this path include the following:

- **cost** (to take advantage of a SMSF, the combined members' super needs to be of a reasonable size to defray the costs. Most service providers in this space suggest a minimum of $200,000 to begin with, which the ATO confirms on its website)
- **time** (allocated to not only manage the fund investments but also to keep the necessary records/documentation) and
- **responsibility** (as the "controller" or specifically trustee of your own fund, you are responsible for the decisions and operation of the fund with the need to comply with superannuation regulation)

There is no doubt the balance consideration is very important and the easiest to assess. Many an adviser would have difficulty in justifying establishment of a SMSF for anyone with less than $200,000.

As to other reasons, it is a matter of degree and goes to one's preparedness to delegate responsibilities to other service providers. eg. investment advisers.

A self managed super fund is like your own "self managed" practice. You retain responsibility for the day to day operations of your own practice but involve others in its management and administration. The same concept can apply to a SMSF. You can self manage as much of it as you want to. But this doesn't preclude you from engaging other service providers at any time, the role of which the Cooper Review clearly acknowledged. The trick is obviously to find those people with the requisite competence and who can provide value over and above any fee they charge.

Many people see this as the most daunting aspect with the term "self managed" being too strictly interpreted. This is not to make light of the responsibilities associated with it but to point out there is a lot of help at hand. And engaging experts in chosen specialities can not only provide you with the opportunity to enjoy the advantages of such a structure but also to maximise it.

But why a SMSF should be considered ?

As you can gather a SMSF is not for everyone.

For someone to embark down this path, they should only consider this if they

have a desire for greater control over their:

• investment choice
• overall investment costs; and
after tax performance, remembering
• tax is by far the greatest investment expense.

The first point goes to the heart of Jeremy Cooper's earlier assertion of "more people seek(ing) more information and control over their retirement savings". For those in the medical profession, a SMSF provides a compelling reason for putting practice rooms into a SMSF (the subject of our June/July 2010 article) along with other sundry investments.

Invariably though, benefits aside, the decision can boil down to the cost and performance of current arrangements versus the potential cost and possible performance that could be generated through a SMSF.

In accessing the features of a SMSF, logically one would expect a premium be paid for this. Interestingly, what appears on the surface to be a premium, when analysed, can be quite the contrary.

Essentially the costs for a SMSF are clear and controllable. At every stage - accounting, trading and administration - you know what you are up for. As you determine the level of involvement, you have greater control over the costs incurred in operating your SMSF.

Whereas the costs for say a retail fund can be difficult to calculate even for those who operate in the industry. Part of this derives from the typical fund of fund structure employed whereby the retail fund charges a fee at one level for access to the underlying investment options (can be up to 0.50%) and the individual fund managers, which it engages to manage money, charge their own fees at another level (up to 0.80% for equity options), with this reflected in their unit price.

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And then even if you feel you have a grasp on costs, the real rub comes when looking at performance, suffice to say a 10% return in a SMSF is likely to mean more to you than a 10% return in a retail fund.

This stems not only from the flexibility to manage tax in a SMSF eg. by deferring contributions tax until the end of the financial year but also from the clear entitlement a SMSF provides, with the following three examples, the first of which was raised in the recent Cooper review, demonstrating the point:

• for life insurance premiums paid by a retail fund, Cooper quoted "members do not always get an appropriate allocation of the tax deduction for their share of the premium paid by the fund";

• with franking credits attaching to Australian share investments, such franking credits are typically applied by a fund against all tax liabilities of the fund such that a member may not obtain full advantage of their proportion of those franking credits; and

• where a member moves into pension phase in a fund, any accumulated deferred tax liabilities in respect of unrealised capital gains become no longer applicable, but the release of this "burden" is often reflected in all member accounts not just those who have moved into pension phase.

So, as long as the investments "work" to a comparable level, costs can be regulated and tax managed to your benefit, the responsibility and the paperwork associated with a SMSF become worth the effort – and that is only if you don't want someone else to handle this !

Why sell yourself short by not exploring the SMSF option, if you desire control ?

Mr Cooper clearly thinks you should.

Geoff Greetham, BEc , CFP, CPA

Geoff is a co-Executive Director of Accordius, a privately-owned personal funds management business, based in Melbourne, specialising in SMSFs .

Accordius can assist you in providing advice on and managing investments for SMSFs.

Nurturing your medical wealth

How personal are your investments?

Are your investments tailored to your needs?

Do you always know what you are invested in?

Are your investments structured to allow for effective tax management?

Are you aware of all the fees being charged against all your investments?

Is the person making investment decisions on your behalf a full time fund manager or just a relationship manager? Do they do their own research or just follow the recommendations of others?

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