KENNAS

A SELF MANAGED SUPERANNUATION FUND

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INTRODUCTION

For a long time now opinion has been divided on the advantages of having a self managed superannuation fund (SMSF). Regardless, of where you sit in this debate, there is no denying their popularity.

- There are nearly 600,000 funds currently in existence;
- Over 1,100,000 individuals belong to one;
- The estimated value of the sector is around $750 billion;
- Over 25,000 new funds were established during the 2018 financial year;
- During 2017 financial year SMSF member contributions were $34.7 billion;
- 53% of members are male and 47% female;
- 84.3% of members are 45 years or older.

(*These figures are all drawn from the ATO's quarterly SMSF statistical report*).

The Australian Securities and Investments Commission (ASIC), from previous independent research completed by Rice Warner, have indicated in order for a SMSF to be cost effective a minimum balance of at least $200,000 is required. They believe that below this level they are not cost effective.

Therefore, why do people continue to establish them? Are they foolish or misinformed? Or is there another reason?

In this article we will share some insight into the common reasons why people establish a self managed superannuation fund that are not cost related.

IT IS ABOUT CONTROL

One of the main reasons why people establish a SMSF is so that they can have control over their retirement benefits. A SMSF allows the member to take control of the retirement wealth. However, with this control comes added responsibility and members and trustees need to be aware of the responsibilities associated with managing the fund and ensuring that the fund remains compliant with the necessary regulations and legislation.

As the members are generally also the trustees of the fund, they therefore have a degree of control over the rules that establish the fund and how these will operate. For example, a fund can be in both an accumulation and pension phase at the same time.

The ultimate aim of superannuation is to provide the member with a benefit in retirement or alternatively provide their dependents with an income stream or lump sum on death. With a SMSF, with the correct planning and advice, you can ensure that your benefits will go to the right people.

INVESTMENT FLEXIBILITY

Another benefit of having control over your superannuation fund is that you have control over the assets you can invest in.

Funds can invest in a wide range of different asset classes like:

- Cash and term deposits
- Direct shares
- Direct property
- Business and residential property
- Managed funds
- Unlisted and international shares

This list is not exhaustive but shows that SMSF's have a great deal of flexibility over where they invest their monies.

Even some public offer funds will sometimes limit an individual member's exposure to certain asset classes. For example, some public offer funds may limit a member's exposure to an asset class like Australian shares to being no more than 80% of the member's overall portfolio. This may not be appropriate for the member but it is regulated by APRA and the member does not have control over this investment decision.

ESTATE PLANNING CERTAINTY

This could be the biggest reason why people decide to establish a SMSF, even if they have a small balance. This investment vehicle often gives the members greater certainty in their estate plan.

More often than not the trustees of a SMSF can accept a reversionary pensioner nomination, a binding death benefit nomination or even in some circumstances a combination, which may be more flexible than what is offered by a public fund.

These types of nomination provide the member with certainty as to who receives their death benefit and also in what form that may be (i.e. lump sum or a regular income stream).

If a member dies with their benefit in a large fund, a process must be followed to ensure that it is paid to the right beneficiaries as the large fund wants to mitigate the risk of litigation should they get this wrong. This can sometimes mean that surviving dependents need to wait a long drawn out time before being able to have access to these monies. On the other hand with the correct documentation and planning on the SMSF side, the surviving spouse could start drawing benefits immediately. It also can mean that in some circumstances the superannuation fund can continue after your death and hence assets can be retained rather than sold in a depressed market.

IT IS ALL IN THE DOLLARS

As SMSF by law can have only one to four members, the ongoing compliance costs like accountancy fees, audit fees and investment advisor fees can only be spread over a maximum of four members, where a public offer fund can spread these costs over hundreds of members, if not thousands. This is not to say that SMSFs are more or less expensive than public funds in all cases.

Although ASIC have stated that in order for a SMSF to be cost effective it should be established with a minimum balance of at least $200,000, in the long term a SMSF could become more cost effective as often the cost of managing a SMSF does not increase as your super investment grows, where in a public fund the fees paid may be based on a percentage of assets.

Also a couple with a SMSF that is running both an accumulation and a pension account will have one set of fees, however, to achieve this in a public offer fund it may require each to have a separate accumulation account and pension account and both of these accounts could be attracting fees.

CONCLUSION

When most people start out in the workforce, their employer is obligated to contribute superannuation on their behalf and they will generally start out with a public offer fund. Determining if or when to move these funds to a SMSF environment and if this is right for you will depend on many things.

Obviously, like all investments, SMSF's will not be right for everyone, but given that superannuation is compulsory and that it makes up a great deal of people's retirement savings, having flexibility and control is usually why people make the decision to establish a SMSF.

If you value having control and flexibility over your retirement savings this may be an option to consider.

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