Media Release No: 22 – 8th September 2008

Self Managed Superannuation Funds (SMSF) – Are They For You?

Think Twice Before Setting Up A SMSF

Investors considering setting up a Self Managed Super Fund (SMFS) should only do so if they have superannuation assets of least half a million dollars and then they should still think twice about it, according to Adelaide based financial strategist, Theo Marinis.

“Whilst most superannuation industry practitioners would generally agree that there needs to be a minimum investment requirement for a SMSF to be administered cost effectively, it is my belief that when all aspects are considered this requirement is set too low.”

SMSFs are an attractive option for those people (myself included) with accounting and financial planning backgrounds. They cut some of the direct cost out of the superannuation equation. However, for many people they can also cut the benefits of professional advice, convenience and living a hassle free life by adding another layer of complexity, not to mention responsibility, to the mix.

I have personally observed many client situations where one partner decides to set up the family SMSF to save costs. Typically, the additional work involved (lodgement of returns, record management and keeping up to date with all Tax Office bulletins) is borne by the other partner, at a significant time cost.

In other scenarios, investments are held in bank accounts at considerable investment opportunity cost and in some cases, without consideration to an appropriate investment strategy at the risk of substantial financial penalty to the fund.

If you have the economy of scale of a large superannuation balance, the perceived savings may make the bureaucracy worthwhile, but there are other options for achieving a cost effective outcome. One of these is through the use of the right master trust platform.

The objection to this strategy, of course, will generally be related to the (quantifiable) fee structure of the master trust administration platform, versus the lower cost perception of the SMSF.

To enable a valid comparison it is important to consider all of the costs (including actual, potential and those less readily quantifiable) involved with SMSF administration. As well as the accountancy fees to set up and audit the fund and fees paid to brokers to buy and sell assets, these may often include retail (as opposed to wholesale) management fees if the fund is not properly structured and the opportunity costs associated with an inappropriate investment strategy.

Consideration must also be given to the time cost involved in Trust deed administration (for example how many existing SMSF deeds have been reviewed/amended to ensure they reflect the many super changes of the last three years or so?) onerous record keeping and staying abreast of the ever changing legislative environment in which superannuation exists.

In addition, there are significant legal obligations in electing to be a SMSF trustee and failure to recognise and uphold those obligations can lead to significant financial penalties being borne by the fund. Given the regulatory issues associated with running a superannuation fund, professional advice is critical, constituting a further cost factor.

Because of their inability to be accurately quantified, many of these factors (ie: a combination of time and opportunity costs and the costs involved in outsourcing additional expertise) are often overlooked. They all have the potential, ultimately, to negate the perceived savings of running a Self Managed Superannuation Fund.

Nevertheless, there are situations when the benefits delivered by SMSF are in line with the associated costs.

For example, when used as an inter-generational wealth transfer vehicle, an SMSF can effectively allow the retention of a large real estate asset within the family structure (and a tax concessioned investment environment) by directing the superannuation contributions of children to the payment of a retirement income to their parents. The use of an SMSF can also benefit a sole proprietor by enabling the purchase of the premises from which his or her business operates.

In the majority of situations however, it is my belief that most Australians will benefit more by choosing the right Master Trust platform for their super.

In doing so they are engaging the support of specialist professionals to ensure that the strategic investment and regulatory aspects of their superannuation and retirement arrangements are managed on their behalf within a quantifiable cost structure.

As a consequence, they have the freedom to get on with enjoying life rather than worrying about their super" said Theo.

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