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DIY INVESTING | If you're a fearless control freak with a fairly well-filled wallet, an SMSF could be your thing

Is a self-managed superannuation fund for you?

CONTROL: Self-Managed Super Funds Professionals' Association of Australia's Andrea Slattery at her Adelaide office.

SUPER STATS

- Money sitting in self-managed superannuation totalled $289 billion in March this year, or 26 per cent of all super.
- It is projected to rise to $490 billion by 2011, $884 billion by 2016 and $1.5 trillion by 2021, when it will be 34 per cent of all super money.
- Within 10 years SMSFs will overtake retail super funds as the biggest source of superannuation savings.
- There are 379,000 SMSFs in Australia 99.9 per cent of all super funds.
- The average size of a SMSF today is $820,000, and the average member balance is $435,000.

ANTHONY KEANE
MONEY EDITOR

ARE you a control freak? Does investing excite you? Do you feel no fear when confronted by complex tax laws? Do you already have a big chunk of retirement savings?

If you answered yes to each of these questions, you may be a good candidate for joining Australia's fastest-growing superannuation sector – self-managed super funds.

At last count, SMSFs held $289 billion in retirement savings.

Deloitte and Monash University predict this will grow to $1.5 trillion by 2021, and become the biggest form of super soon after 2016.

Today we examine the requirements, strategies, benefits and pitfalls of starting and maintaining your own SMSF.

CHOICE

The introduction of Super Choice early this decade gave the majority of Australians the ability to choose a super fund and choose how their money is invested.

SMSFs take this a step further by enabling the owner – known as the trustee – to be their own investment manager. Perhaps a tantalising prospect, given that super funds have just suffered their worst year on record.

However, Tony Simmons, partner in chartered accountants and consulting firm PKF, said the recent weakness was a result of global financial turmoil, with even quality investments falling sharply.

"The super fund is not the problem – it's the underlying investments," Mr Simmons said.

Self-Managed Super Funds Professionals' Association of Australia chief executive Andrea Slattery said a danger of giving non-professionals direct control was that they might make knee-jerk decisions rather than take a long-term view.

"You can't stop people from making bad investment decisions in any part of their life," she said.

Financial planners recommend that people who establish a SMSF still seek professional advice on their investment strategy.

YOUR MINDSET

Ms Slattery said SMSFs were suited to people who were interested in control and flexibility.

"You need reasonably good knowledge to understand the legislation, roles and responsibilities you have.

"They don't suit people with low fund balances that are never likely to grow, and people who never like to make their own financial decisions and are not interested in learning and understanding lots of rules and regulations."

PKF's Mr Simmons had a similar view of the mindset required: "Someone who likes to manage their own investments and probably likes to have an investment which is outside shares, managed funds and fixed interest.

"Business owners can also put business premises in a self-managed superannuation fund," he said.

THE COSTS

The costs of establishing and maintaining a SMSF vary widely, but as a guide, it will cost between $1000 and $2000 to set up. This involves preparing the trust deed, which sets out the investment strategy and the rules and conditions under which the fund must operate.

Then there are ongoing administration costs, which can be about $1500 a year, plus an annual audit fee of $500.

People seeking professional advice on their investment strategy must also pay financial adviser fees, which can cost several thousand dollars depending on the complexity and the adviser.

Ms Slattery said the SPAA website at www.spaa.asn.au had a "find a SMSF specialist adviser" tool to put people in touch with specialists.

HOW MUCH DO YOU NEED?

Debate continues about the minimum amount required to establish a self-managed super fund.

The most common figure is about $200,000, although Ms Slattery said people could start with less if they expected to reach $200,000. "If you're never going to get to $200,000, it is not viable to be considering it," she said.

This is because paying $2000 in annual administration and auditing costs would be about 1 per cent of total funds in a SMSF holding $200,000.

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Do you need a financial planner?

For someone with just $20,000 wanting to start a SMSF, the costs remain the same, so they would cost the investor 10 per cent a year – wiping out all investment gains.

Most public-offer super funds charge about 1-2 per cent a year in administration costs, although retail funds can be more expensive than this when adviser fees are added.

Perpetual Private Wealth state manager John Hender said his firm found SMSFs were most effective with funds above $300,000.

"This best allows the fund to leverage the cost savings gained," Mr Hender said. Financial strategist Theo Marinis of Marinis Financial Group said people should start a SMSF only if they had more than $500,000 in super assets, "and then they should still think twice about it".

"SMSFs are an attractive option for those people with accounting and financial planning backgrounds," he said.

"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."

YOUR ASSETS

Self-managed super funds give people a chance to hold assets in super they could otherwise not have in a traditional fund.

Direct property is the big one. While a person's business premises can be owned by their super fund, their own home cannot.

Mr Hender said one potential trap was buying a home unit with the super fund and renting it out to the children at a rent below market rates. "Even worse is selling a unit – not real business property – to your SMSF and renting it out to the children at discounted rates," he said.

Artwork and other collectibles can be owned by a SMSF, but the trustees are not allowed to gain personal pleasure from them by displaying them at home.

Since late last year, SMSFs have been able to use borrowed money to invest, although this strategy is still new and there are only a few specialised products available.

PENALTIES

Tough penalties apply for those who break the rules.

The Australian Taxation Office can apply penalty taxes of up to 46.5 per cent, disqualify trustees and seek civil and criminal penalties through the courts.

Mr Hender said compliance and investment management could be time-consuming.

"Generally all compliance, administrative and investment tasks can be outsourced. However, final legal responsibility continues to rest with the members and trustees," he said.

PITFALLS

A big mistake made by those who choose an SMSF is ignoring its investment strategy, which can result in fines.

Prescott Securities financial adviser Nick Loxton said having an inappropriate portfolio was a common error.

"It's not uncommon to see a SMSF littered with small parcels of underperforming shares," he said.

"Many people spread their investments out too thin in the hope of gaining small rewards, but by doing so they are possibly forgoing larger returns on offer with proven performers. Just as risky is making investment decisions in companies based on their past year's results without considering where they are heading."

Ms Slattery said good, specialised advice was essential.

"Don't get talked into things by aggressive marketing campaigns – make sure you know what you are doing," she said.

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