



## Self Managed Superannuation - it's all about CONTROL

Self managed superannuation funds (SMSFs) are now a major force in Australia's superannuation industry.

As at 30 June 2007, there were approximately 360,000 SMSFs established in Australia. Around 650,000 mums and dads now control almost a quarter of the \$1 trillion in superannuation assets.

### What are SMSFs?

A SMSF is a personal or family superannuation fund that is managed by the members of the fund, who are also the trustees.

The primary motivation for people setting up their own SMSF is the desire for control - over investment decisions, tax planning, retirement strategies and estate planning. As a general rule, it is the more experienced investor who is inclined to want to manage his or her superannuation via a self managed superannuation fund rather than a personal superannuation fund.

### How much do you need?

This has been a hotly debated issue ever since the inception of SMSFs. Different people have different ideas as to exactly how much is needed to set up a SMSF.

The two superannuation regulatory bodies - ASIC and ATO - recommend no less than \$200,000 in pooled superannuation money (that is, the total amount invested across all members of the SMSF). Many individuals think this benchmark is unnecessarily high. It is argued that people with much less than this could easily manage their own SMSF, particularly when they are planning to make large regular contributions over time.

The issue, of course, is cost. To remain competitive and cost efficient it is generally accepted that the greater amount of funds pooled within the SMSF, the lower the cost average. Over the long term, as the SMSF account balance grows, the cost of running the fund becomes even more efficient.

Consider the following example:

Paul and Mary have accumulated a substantial amount in their respective personal superannuation funds. Combined, they have \$350,000 which they are looking to transfer into their own SMSF.

Bill and Ellie, on the other hand, have only managed to accumulate \$100,000 in super as a combined amount. They are asking whether this amount is enough for them to establish their own SMSF - would this option produce a greater cost saving for them than leaving their superannuation in their existing retail super funds? Their retail super funds currently charge an annual administration fee of 2.23%.

Paul and Mary		Bill and Ellie	
Total Super	\$350,000	Total Super	\$100,000
Estimated Upfront Costs:			
Establishment Fee#	\$895	Establishment Fee#	\$495
Initial Brokerage / Transaction Costs @ 1.25%	\$4,375	Initial Brokerage / Transaction Costs @ 1.25%	\$1,250
%age upfront cost	1.50%	%age upfront cost	1.74%
Estimated Ongoing Costs pa:			
Ongoing Administration Fee <sup>^</sup>	\$1,796	Ongoing Administration Fee	\$1,796
Annual ATO Levy	\$150	Annual ATO Levy	\$150
Ongoing Portfolio Fee <sup>**</sup>	\$3,960	Ongoing Portfolio Fee <sup>**</sup>	\$1,320
Ongoing Company Fee <sup>*</sup>	\$65		
%age ongoing costs	1.70%	%age ongoing costs	3.27%

# Paul and Mary are using a Corporate Trustee structure, which means an additional \$400 ASIC fee. Bill and Ellie are using an Individual Trustee structures so the only cost is the SMSF Trust Deed.

\* The ongoing company fee is a reduced ASIC fee because Paul and Mary are using a shelf company as the corporate trustee, and not an existing company. A shelf company acts as the corporate trustee only and is not associated to any other entity activities.

<sup>^</sup> Ongoing administration fee includes annual audit fee.

<sup>\*\*</sup> Ongoing portfolio fee - ABN AMRO Morgans' MPS schedule of fees used. That is, amounts up to \$250,000 @ 1.32%pa; amounts over \$250,000 @ 0.66%pa.



In this example you can clearly see size does matter. There is a significant difference in the ongoing costs for Bill and Ellie compared to Paul and Mary. Even where Paul and Mary incur additional costs due to the corporate trustee structure, their average costs are approximately half that of Bill and Ellie's.

Moving to their own SMSF could be a good strategy for Paul and Mary. Bill and Ellie, on the other hand, would be paying substantially more in fees in an SMSF than if they retained their existing retail superannuation funds. Other factors, therefore, must be considered if Bill and Ellie still want to set up their own fund. Factors such as investment control and fund performance may be very important issues for Bill and Ellie that outweigh the argument for fees.

## The SMSF Process

Once the decision has been made to proceed with an SMSF the actual establishment does not have to be onerous. Professionals such as financial advisers, accountants and solicitors who specialise in this field are available to assist trustees with the necessary processes.

The steps for setting up your own SMSF involve:

1. Obtaining a Trust Deed
2. Appointing the Trustees
3. Trustees must each sign a Trustee Declaration
4. Electing to be regulated by the ATO
5. Identifying the Members
6. Applying for a Tax File Number for the SMSF, an ABN (if applicable) and/or GST registration (if applicable).
7. Preparing an Investment Strategy
8. Opening a Bank Account
9. Arranging appropriate wealth protection cover for all members.
10. Transferring existing super accounts

## The Right Investment Strategy for your SMSF:

Trustees are required to prepare and implement an investment strategy for the SMSF. This investment strategy must reflect the purpose and circumstances of the fund and consider:

- investing in such a way as to maximise member returns having regard to the risk associated with holding the investment;
- appropriate diversification and the benefits of investing across a number of asset classes (eg shares, property, fixed interest, etc) in a long term investment strategy; and
- the ability of the fund to pay benefits as members reach retirement and other costs incurred by the super fund

Members can tailor their own investment strategies and select specific investments such as

Listed Securities	Managed Investments
Cash, Securities And Term Deposits	Business Real Property
Both Direct And Listed Property	International Equities
Artwork, Wine & Other Exotic Assets	Life Insurance Policies
Agribusiness	Instalment Warrants

ABN AMRO Morgans' advisers can provide you with specific advice on whether a self managed superannuation fund is the right choice for you, and can assist in setting up, maintaining and administering the fund. Contact your local adviser or office today on 134 226, or visit [www.abnamromorgans.com.au](http://www.abnamromorgans.com.au).