

Is an SMSF right for me?



Ask yourself three questions

Q. 1

DO YOU WANT TO CONTROL OF YOUR FUND'S INVESTMENTS and have the time, interest, financial knowledge (or access to professional advice) to do so?

Q. 2

DO YOU HAVE AT LEAST \$200,000 to invest in your SMSF or can you rollover this amount from another super fund?

There is no hard and fast rule as to how much money you should have in your SMSF to start. The accepted industry norm is \$200,000 and that is the amount we use as a guide. There are some unavoidable costs with running an SMSF – such as audit fees and the ATO supervisory levy – and on small amounts of money, it just does not make financial sense to incur these costs. For smaller super balances industry super funds might be a much more cost effective alternative.

Q. 3

DO YOU HAVE THE TIME, interest and ability to establish and maintain a fund in accordance with all the rules and regulations, or are you prepared to access professional assistance to do this?

If you answered “yes” to all these questions, then an SMSF may be right for you. Two other reasons that would support the establishment of an SMSF



are if you want to minimise tax and maximise your net retirement benefit, and the ability to utilise the flexibility of the SMSF structure to access estate and retirement planning outcomes that may not be available through the use of retail or industry super funds.



What will an SMSF cost me?

Setting up an SMSF is relatively straightforward. The main cost is the establishment of the trust deed, which will typically cost about \$500 to \$700 depending on the complexity or specific tailoring required.

IF YOU ARE USING A CORPORATE TRUSTEE STRUCTURE, then you will also pay incorporation costs (Australian Securities and Investments Commission fees & costs for preparing the company's constitution) of around \$426.

Some service providers will bundle these activities as a package and in most cases, you should pay less than \$1,500 to establish the fund. You will also need to pay for the preparation of the fund's investment strategy

Once your SMSF is established, the ongoing costs are really up to you as the trustee. You can do as

much as you want or have the capacity to do – or outsource most of the tasks to service providers. Unsurprisingly, the costs follow.

LET'S BREAK THE POTENTIAL COSTS INTO THREE CATEGORIES:

1. Mandatory
2. Administration & Accounting
3. Investment/Advice

Mandatory costs

The SMSF must be audited each year by an approved auditor and must pay the ATO Supervisory Levy in order to comply with regulations. Further, the fund is required to keep its assets separate from the personal assets of its members, so it must maintain a separate bank account.

AT A MINIMUM, THE FUND WILL PAY EACH YEAR:

1. Audit Fee (typically \$500-\$700);
2. ATO Supervisory Levy (\$180 in 2011/12);
3. Bank Account Fees (typically \$0-\$120)

Administration & accounting costs

There are many companies that provide specialist administrative and accounting support for SMSFs. Some accountants also provide these services, however with an orientation towards taxation and accounting advice.

THE SERVICES OFFERED SHOULD INCLUDE:

Record keeping of investments

Preparation of the fund's financial statements, investment performance reporting and members' statements

Preparation of the fund's income tax return

Advice on ATO rulings or legislative changes

Trustees minutes and other trustee documentation

Sometimes, a trust deed updating service

Typically, the administrator will charge around \$1,500 to \$3,000 a year for this service. Key drivers in relation to this charge are the level and frequency of reporting, and whether your fund has any 'exotic' investments such as artwork, collectables or even a commercial property.

If the fund's investments are in more regular assets such as listed shares, managed funds, listed fixed income securities and term deposits, these charges should be in the range quoted above.

Investment and advice costs

The amount you pay in relation to investment and advice fees is based on whether you use the services of a financial planner as well as the extent to which you invest in professionally managed unitised investments such as managed funds and exchange-traded funds (ETFs).

IF YOU USE A FINANCIAL PLANNER for strategic and investment advice, you will typically pay ongoing fees of around 0.5% to 1% of funds under advice. Many financial planners will charge a flat fee, however, the fee will tend to be higher if the funds are higher. Our fee for service applies up to \$750,000 with no adviser fee on funds in excess of this amount

IF YOU INVEST IN UNITISED STRUCTURES

such as managed funds or ETFs, the manager or product provider will typically charge an investment

management fee. These fees vary from as low as 0.25% a year to more than 2% a year for funds that invest in offshore assets

While your fund will not pay the fee explicitly, it will pay the fee indirectly because it is deducted from the earnings of the assets and is reflected in the unit price of the managed investment. The fee is usually described as the management expense ratio (MER).

