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The Australian Financial Review
www.afr.com • Wednesday 12 April 2006

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Do it yourself – with a measure of caution

For some, the appeal of the self-managed fund can be outweighed by its many complexities, says **Tim Mendham.**

PHOTO-ILLUSTRATION: KARL HILZINGER

Superannuation can be difficult enough when someone else is doing the legwork, but managing your own super takes you into a whole new ballgame. So why do it? Or as some authorities are asking, why continue to do it?

The Australian Tax Office regulates self-managed super funds (SMSFs), and reported last year that there were around 300,000 SMSFs, representing 560,000 Australians managing their own funds. About 2500 new SMSFs were being established every month.

It warns that there are many issues to consider before making the commitment to establish an SMSF, such as: the financial and time burdens; responsibilities as a trustee to comply with legislation, and determining whether you have sufficient money to contribute to the fund to make it viable.

You should also ensure you have the appropriate combination of asset levels, investment diversification and expertise to manage the fund successfully. "We strongly recommend you consult a qualified professional to discuss whether a self managed superannuation fund is the best retirement saving option for you," the ATO advises.

It also warns that SMSFs can typically cost around $1700 to run each year, and quite often cost more. Running costs include audit and regular reporting requirements.

Perhaps it's not surprising, therefore, that the ATO also reports that the growth in SMSFs has slowed, with about 200 SMSFs wound up each month. While that still means a net gain, there are reservations about the benefits of SMSFs.

Philippa Smith, chief executive of the Association of Superannuation Funds of Australia, gives backhanded support: "There is a legitimate role for self-managed funds for a small percentage of people who have enough money and time to monitor what they're doing and the expertise to manage it."

"Some may be unwise to do so, though," she adds. In an editorial issued last year by Olivia Molina, general manager of *SuperGuardian*, the suggestion was made that: "The number of funds established in Australia in the last five years rose due to what many believed was a reaction to low or negative investment growth during the late 1990s. If that is the case, then we might expect the converse to be true — that is, if trustees cannot achieve satisfactory returns, they might just be inclined to return to retail or public offer superannuation funds. Or, with the responsibility of managing a fund, and the associated paperwork and complexity, some might find that it is not for them. Indeed they have made a mistake in setting it up, and that they wish for a simpler life with someone else managing their super for them."

Certainly the ASFA, which has a policy committee on SMSFs, doesn't see that sector as a threat to the established industry and retail funds.

Nonetheless, not everyone is convinced that all is on the downhill slide for DIY fund managers.

Sam Ghoreyshi, "wealth specialist" for financial services advisers Moneyclip, advises clients on establishing SMSFs, as well as lecturing at a number of Sydney community colleges on the topic. (He also runs his own SMSF.)

While admitting that DIY funds are not a big part of his organisation's business, the number of people signing on to his courses has been rising. Those in the 40 to 50 age group predominate, with about 50/50 business owners and pay as you earn employees.

"A lot are just tyre-kicking, but the courses are now always run because the numbers are there," a position not always the case with his previous courses on straight superannuation topics.

Russell Medcraft, managing director of Find My Super, reports that, for individuals consolidating their funds through his organisation's online facility and nominating their own, the third-highest result is for self-managed funds.

He adds that there are possibly extenuating circumstances in the declining growth in SMSFs, not least being stringent requirements on accountants who have been advising clients on establishing SMSFs.

Nonetheless, there are some requirements that rule out a lot of hopefuls in the self-managed market.

Ghoreyshi, like the ATO, says you must understand the roles and obligations of being a trustee, as you may face fines and changes to tax rates if you get it wrong.

"This turns off a lot of people," he says.

As does the asset base: "You need to cover fixed costs, so you need to have a six-figure super pool to go DIY, at the very least $100,000 but preferably $200,000 to $300,000."