Game changer in decision to opt for SMSF

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Richard Livingston

Table 1: Simple portfolio of funds and term deposits

Name	Asset class	Amount invested	3 yr return (pa)*
Allan Gray Australia Equity Fund	Aust shares	30,000	10.1%
Intelligent Investor Value Fund	Aust shares	10,000	25.0%
Platinum Capital Limited	International shares	10,000	10.3%
Magellan Global Fund	International shares	20,000	19.6%
Colonial Global Listed Infrastructure Fund	Infrastructure	10,000	14.9%
BWP Trust	Property	5,000	14.2%
ALE Property Group	Property	5,000	18.1%
RaboDirect Term Deposits**	Cash/TDs	10,000	5.0%
Admin costs			-1.0%
	Totals	100,000	13.1%

* Latest published performance (assuming reinvestment of distributions)
** Estimate

The big super funds are taking aim at self-managed super funds (SMSF), arguing that, unless there's a minimum balance of, say, a quarter of a million dollars, you shouldn't be allowed to set one up.

They would say that wouldn't they? Every dollar going into self-managed super is one less dollar that they can charge fees on. Don't ask a barber if you need a haircut.

But the truth is that a minimum balance figure hides the complexity in the decision to start an SMSF in the first place. And the big super funds are ignoring some fundamental shifts that are lowering the cost of an SMSF.

If you've got a balance of $100,000 and have borrowed to buy a single property, that's a risky strategy. Big super is right to raise concerns about this and those who are paying through the nose for the privilege of having a SMSF.

On the other hand, if you're using online SMSF administration tools or you've kept your fund simple and struck a good deal with your accountant, the $3000 or more that many people pay each year to run an SMSF may be as low as $1000.

That changes the game.

To pay 3 per cent a year for control and flexibility of a $100,000 SMSF is too much and will inhibit its growth. But at 1 per cent the opportunity to switch your super from a big super fund with average performance to your own portfolio of shares, top notch managed funds or term deposits is more attractive.

If you haven't considered this option, let's examine how it might have performed compared with industry super fund CBus's High Growth option, which has delivered 10.1 per cent a year growth over each of the past three years. This isn't too bad compared with the ASX 300 performance of 9.7 per cent a year (but remember, your fund may not have performed as well as CBus).

Table 1 shows a basic mix of locally managed funds and term deposits. After costs, your returns would have been about 13 per cent a year over the same period. An extra 3 per cent each year for decades will make a huge difference to your retirement.

For the record, this isn't by any stretch a "best performing" portfolio. I've just approximated the CBus High Growth asset allocation with a basic portfolio of funds and shares we run or have in our model portfolios, with a little cash on the side.

While you've paid more in fees, the fact that you've been able to access some of Australia's best fund managers has more than compensated for the extra cost. Plus, as your portfolio grows and you make contributions, the costs (being largely fixed) become less and less of an issue.

If you're not interested or are going to be reckless and punt your money on a single property or a few shares, then you're probably better off sticking to industry or retail super.

You also need to remember that, as you approach retirement, having an SMSF will probably mean you pay for some personal advice on pension strategies. So it's important you've built up enough wealth to justify this cost.

But if you're interested, and prepared to do a little bit of reading and work, a self-managed super fund may well be for you.

It's not all about your current super balance. And you shouldn't believe a self-interested super industry that wants to tell you otherwise.

Richard Livingston is the managing director of Intelligent Investor Super Advisor, an online service providing advice on superannuation and investing. This article contains general investment advice only (under AFSL 282288).

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