Gemma Dale, NabTrade

Gemma is currently Head of SMSF Solutions at NabTrade, leading a team devising and coordinating the rollout of SMSF product, service and strategy across NabTrade and the wider Nab Group.
Prior to this role, Gemma was Head of Technical Services at MLC for five years, leading a team comprising twelve technical specialists. This team provides technical support to 2000 advisers within Godfrey Pembroke, Apogee, Garvan, MLC and NAB Financial Planning, as well as independent financial advisers.
Prior to joining MLC, Gemma was a Senior Technical Manager at Asgard Wealth Solutions and Head of Technical Services at Suncorp. She has over fourteen years experience in the financial services industry, and is a widely recognised media expert in the areas of superannuation, SMSF, tax, social security and general financial planning.

SMSFs ARE WELL-RUN AND COST-COMPETITIVE

Gemma Dale

Gemma Dale shares her key take-outs from the recent study of SMSF fees and performance.

ASIC recently released a report on the costs of running self-managed super funds (SMSF) that was prepared by Rice Warner Actuaries. The study is very comprehensive and covers a range of different scenarios.

At the same time, the findings have been interpreted in different ways and conclusions have been drawn that imply many trustees are making economically irrational decisions with their retirement savings.

A thorough reading of the report reveals that the findings are in fact broadly positive for the SMSF sector and the key messages for trustees and the super industry are:

1. It is very difficult to determine a minimum balance at which SMSF become cost-competitive.
2. Most funds are paying fees that are similar to or less than other fund arrangements.
3. Fee savings are not the only reason for running an SMSF.
4. Trustees are generally doing a good job at managing the fund's investments.

Fund balance is not the only fee determinant

When ASIC appointed Rice Warner Actuaries to prepare this study, the brief was to assist in determining the minimum cost-effective balance for SMSF when compared to other super options.

But what the report confirms is that "it is not possible to focus on a specific set of costs and say that one product is cheaper than another for a specified balance."

This is because the cost of running an SMSF depends significantly on the administration services required by the fund and the extent to which the trustees decide to do some of these activities themselves or outsource them.

In other words, what the trustees do or don't do can play a bigger role in determining the cost of running an SMSF than the fund balance.

Also, many of the fees paid by SMSF don't increase with fund size. Conversely, many of the fees charged by other super options are based on the account balance.

Most SMSF are cost-competitive

The Rice Warner report neatly summarises in a table the scenarios where they've estimated SMSF fees are below, similar to and above other funds, based on a range of fund balances and different levels of administration costs.

The quote

Very few people set up an SMSF purely to save on costs. The majority cite broader investment choice and control as the main drivers.

What this table shows is that SMSF costs are for the most part similar to or lower than other funds when balances reach $150,000 to $250,000 or higher. This is consistent with the results from an earlier ASIC study.

One exception is where the fund pays for administration services at the moderate to higher end of the cost scale. Generally, however, it can be observed that very few SMSF outsource all administration, let alone pay top dollar for these services, and the funds that pay higher administration fees may be doing so because they are using more complex strategies that involve, for example, pre-1999 trusts and in house assets, where the potential benefits are anticipated to more than compensate for the additional costs.

The other exception in the table is funds with small account balances. But the report also suggests that a small SMSF may be appropriate if it is expected to grow rapidly because of contributions or transfers of benefits from other funds.

It also emphasises that a CGT event would more than likely be triggered when a member who has built up their savings in another super arrangement decides to switch to an SMSF or commences a pension.

Conversely, if the benefit had been accumulated in an SMSF, this CGT event would be avoided and the potential CGT savings could more than compensate for the extra fees that are paid while the SMSF balance builds to a scalable level.

Fee savings are not the only reason for running an SMSF

Very few people set up an SMSF purely to save on costs. The majority cite broader investment choice and control as the main drivers.

Fee comparisons are therefore somewhat irrelevant if the SMSF has, as often is the case, been set up to access investments simply not available to members of other super arrangements, such as business real property, collectibles and most unlisted assets.

While borrowing to invest through super is currently a controversial topic, with ASIC expressing concern about 'spruikers' increasing their activity in this area, other types of superannuation funds generally do not offer borrowing arrangements.

An SMSF established to undertake a prudent and effective borrowing strategy may start with a low balance that grows rapidly as the debt is amortised and the asset value increases.

This scenario cannot be compared to a public offer fund on a purely cost basis, as the trustee's end balance is likely to be dramatically different in each scenario, potentially justifying the fee differential.

SMSFs are performing well

The Rice Warner study also found the SMSF sector has delivered higher returns than the retail and industry fund sector in six of the last seven years.

This doesn't necessarily mean that SMSF trustees are better investment managers than retail and industry funds, and clearly different trustees will produce different results.

That said, it's still a strong result and it shows that SMSF are being well run by trustees who are generally well versed in investment matters.

It also reflects the fact that it's much easier for SMSF to move money in and out of asset classes in response to changing market conditions, when compared to larger funds.

Ultimately, with nearly 500,000 funds in existence and over a third of total superannuation assets managed by the members themselves, it is clear that SMSF are here to stay.

The increasing evidence that, for the most part, these funds are well run and economically rational (from both a cost and performance perspective), should be a source of considerable comfort to the superannuation industry, regulators and policy makers alike. **FS**