

## SPECIAL TOPIC – SMSFs VERSUS INDUSTRY FUNDS - THE VERDICT IS IN!

*This article looks at the cost and performance of Self-Managed Superannuation Funds (SMSFs) versus industry/retail funds. While there are many factors that can influence cost & performance of your superannuation fund, the findings of a recent ASIC report make interesting reading. This article is not intended as financial advice but rather a presentation of data & objective comment on that data.*

### Popularity

SMSFs are now more popular than ever! The latest statistics released by the Tax Office indicate that as at 30 June 2013, a record 509,362 SMSFs were in existence, with more than 35,000 SMSFs established in the past year alone (670 created each week!). A noteworthy statistic from the latest data is that the number of SMSF windups has dropped dramatically in recent times, down by more than 60% in the past year alone:

### SMSF Population Table

	June 2008	June 2009	June 2010	June 2011	June 2012	June 2013
Establishments	31,628	32,596	29,924	33,198	41,017	35,776
Wind Ups	6,113	8,743	14,975	6,680	6,178	2,230
Total number of SMSFs	375,657	339,510	414,459	440,977	475,816	509,362
Total members of SMSFs	713,077	758,827	788,026	838,282	899,539	963,852

Source - Tax Office Self Managed Superannuation Fund Statistical Report June 2013

## Performance

Although many factors impact the performance of a superannuation fund, in a recent comparison commissioned by ASIC, SMSFs came out in front when compared to industry/retail funds in recent years:

### Comparison of Aggregate Investment Returns\*

YEAR END 30 JUNE	INDUSTRY/RETAIL FUNDS	SMSFs
2005	13.2%	17.4%
2006	14%	16%
2007	15.6%	20.1%
2008	-7.6%	-4%
2009	-11.9%	-4.5%
2010	9.8%	8.3%
2011	8.7%	11.2%

Source - ASIC Costs of Operating SMSFs (2013 - prepared by Rice Warner Actuaries)

\*gross of fees

While this raw data is useful, the picture is somewhat more complex with the ASIC report indicating that to be competitive with industry/retail funds, an SMSF needs a minimum combined balance of \$200,000. This finding concurs with a publication on the Tax Office's website Thinking About SMSFs? which states that to be competitive with industry/retail funds, a combined balance of \$200,000 in superannuation savings is the minimum figure you ideally should have before you contemplate starting an SMSF.

## Costs & Administration

The other factors that impact on a decision to start & keep going with an SMSF are the annual costs & also the administration. On the issue of costs, according to the Tax Office the minimum costs of running a simple SMSF may be around \$2,000 per year including the annual supervisory levy (plus any investment advice you may receive). Comparing costs, the ASIC report finds that:

- You would not be better off in an SMSF (compared to an industry/retail fund) where the combined superannuation balances of the members are less than \$200,000 unless the members did the administration work themselves.
- Where the combined balances are between \$200,000 & \$500,000, SMSFs are competitive with industry/retail funds provided the SMSF members do some of the administration work themselves.
- Where the combined balances exceed \$500,000, an SMSF becomes the cheapest option.
- One of the problems that arises once SMSFs commence is that many people who start them do not at the outset realise the extent & complexity of the administrative tasks that must be undertaken including:
  - Appointing an approved audit each year;
  - Ensuring your SMSF is fully compliant with the law, including the complex investment & contribution rules;
  - Accepting contributions & paying benefits in accordance with the law & the SMSFs rules;
  - Lodging annual returns;
  - Formulating, reviewing & updating your investment strategy each year (and complying with this strategy);
  - Record keeping.

## Take Home Message

The decision to join the many people who are starting an SMSF is ultimately a decision to be made in consultation with your advisors. While SMSFs can be very competitive & outperform industry/retail funds, this will ultimately depend on the quality of investment decisions that are made & the extent to which you outsource the tasks that come with running an SMSF.

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