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Costs of Operating SMSFs ASIC

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1. Executive summary

1.1 Our brief

ASIC has retained Rice Warner to assist it determine the minimum cost effective balance for SMSFs.

When developing the minimum balance for SMSFs, we were required to have regard to the following parameters:

- Reviewing the comparable costs of holding superannuation in an APRA-regulated fund.
- Considering various products issued by APRA-regulated funds, including default options and likely MySuper costs.
- Considering the situations where there is more than one member in an SMSF (which would result in multiple accounts in an APRA-approved product).
- Considering the opportunity cost of the time spent by an SMSF trustee in managing the fund.

1.2 Our approach

In assessing the minimum size of an SMSF, there are a number of factors to take into account. These include:

- The likely pattern of future contributions (nil once all members are in pension phase), including any large non-concessional amounts.
- The current size of the fund and future cash flows (earnings plus contributions less expenses, tax and withdrawals).
- The asset allocation – and whether this can be replicated more cost-effectively in an APRA-regulated fund.
- Whether the trustee(s) is self-directed or will rely on external advice (which will add to costs).

We separated the SMSF segment into funds of different types - including separation into funds by number of members, funds in accumulation and/or pension phase, and funds by size of investments.

From the segmentation, we considered comparable APRA-regulated products and have modelled their fees to show at what size a cost saving can be made via an SMSF. These fees will include investment and administration components.

We have considered investment structures which cannot be replicated easily under an APRA-regulated product. For example, an SMSF might hold a direct property. Under these structures, the price is less important than the required investment strategy.

Using this analysis backed by modelling, we have established the size at which a fund becomes viable and then determined reasonable rules to apply to funds which are below this threshold.

1.3 The SMSF market

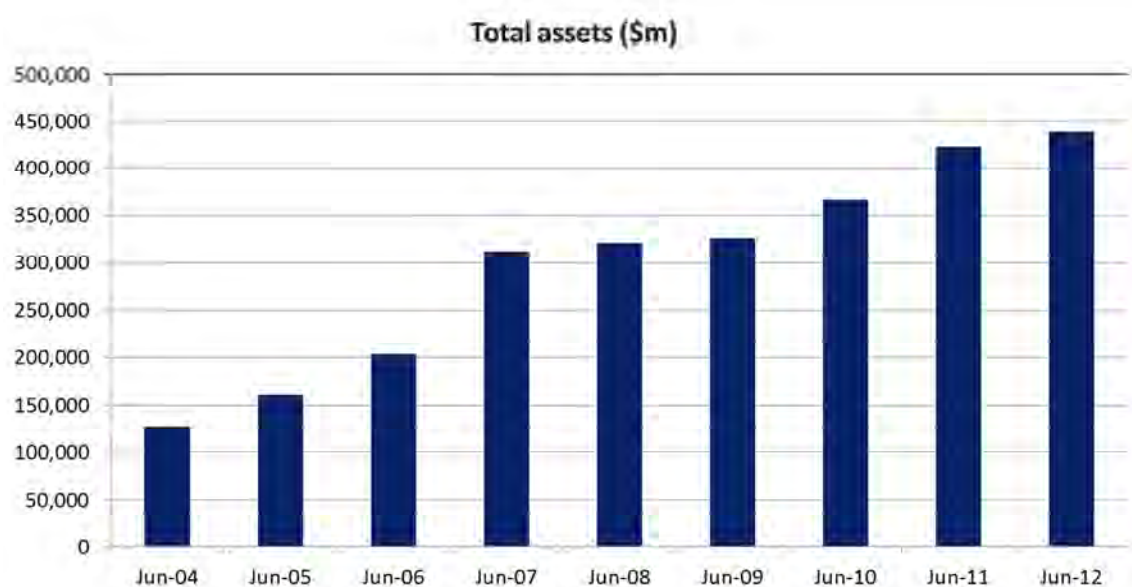
Section 2 (Overview of the SMSF market) presents an overview of the SMSF market which continues to grow strongly. Table 1 shows the growth in the number of funds over recent years.

Table 1. Establishments of SMSFs

Financial Year	2009	2010	2011	2012
Establishments	32,586	29,913	33,139	36,270
Wind Ups	8,582	14,699	5,108	994
Net Establishments	24,004	15,214	28,031	35,276
Total number of funds	399,742	414,956	442,987	478,263
Total number of members	759,271	792,827	846,227	913,550

The growth in the number of funds has been accompanied by a commensurate growth in the total assets held within SMSFs as shown in Graph 1.

Graph 1. Growth in SMSFs assets



Of particular interest for this report is the breakdown of SMSFs by fund size as is presented in Table 2.

Table 2. Proportion of SMSFs by fund size (2010-11 Financial Year)

Asset Ranges	Percentage
\$0-\$50,000	5.60
>\$50,000-\$100,000	5.40
>\$100,000-\$200,000	11.00
>\$200,000-\$500,000	25.50
>\$500,000-\$1m	23.60
>\$1m-\$2m	17.50
>\$2m-\$5m	9.50
>\$5m-\$10m	1.60
>\$10m	0.30
Total	100%

This analysis shows that some 22% of SMSFs hold less than \$200,000 in assets with 11% holding less than \$100,000.

1.4 Costs of SMSFs

We have estimated the range of costs for the setup and running of SMSFs, through the marketing material of, and interviews with, a number of SMSF administration services suppliers, accountants and auditors. As would be expected with a dynamic market, there is a range of costs that reflect the range of complexity of the SMSFs themselves. Costs for simple funds with little complexity and the trustee seeking only transactional services will generally be at the low end of the range. Funds with more complexity and/or where the trustee requires more assistance will generally be at the high end of the range.

The full analysis is presented in Section 3 (Costs for SMSFs).

The underlying costs of operating an SMSF are the costs of providing the services and reports required by regulation. These are the costs that cannot be avoided as they comprise statutory fees and the necessary provision of professional services. They are summarised in Table 3.

Table 3. Range of annual compliance administration costs

Fee	Low	Mid	High
Annual ASIC fee (special purpose company)	\$43	\$43	\$43
ATO supervisory levy	\$200	\$200	\$200
Audit fee	\$300	\$440	\$500
Financial Statements and Tax Return	\$620	\$855	\$1,624
Total accumulation	\$1,163	\$1,538	\$2,367
Fee if the fund pays pension	\$250	\$264	\$330
Actuarial certificate	\$180	\$210	\$260
Total Pension (no certificate)	\$1,413	\$1,802	\$2,697
Total Pension (with certificate)	\$1,593	\$2,012	\$2,957

Should the trustees not wish to be involved at all in the administration of the fund, they will necessarily incur higher fees for a full administration service including investment administration and reporting. These fees are shown in Table 4.

Table 4. Range of annual full administration costs

Fee	Low	Mid	High
Full administration Fee	\$2,225	\$3,990	\$7,200
ASIC fee and ATO levy	\$243	\$243	\$243
Total accumulation	\$2,468	\$4,233	\$7,443
Fee if fund pays pension	\$250	\$264	\$330
Actuarial certificate	\$180	\$210	\$260
Total Pension (no certificate)	\$2,718	\$4,497	\$7,773
Total Pension (with certificate)	\$2,898	\$4,707	\$8,033

SMSFs make use of managed funds for some of their investment allocation. The allocation is not high and ranges from 4% for the smallest funds up to 12% for those funds with assets of \$500,000.

In keeping with the methodology of our report, we have determined the range of fees likely to be paid by SMSFs. We believe that a reasonable estimate of the average investment management fee paid for these assets is:

Table 5. Investment fee range

Fee level	Fee
Low	0.35% pa
Mid	0.775% pa
High	1.20% pa

These fees represent the range that is encountered in the market for products ranging from simple index funds to actively managed funds for speciality assets. Some Exchange Traded Funds have even lower fees than the Low fee shown so the Low estimate is conservative.

On the basis of these fees and the asset allocations shown in Table 14, the extra yearly costs that should be considered for SMSFs are:

Table 6. SMSF yearly investment management fees

Fund Balance	Investment management fee (\$)		
	Low	Medium	High
\$50,000	8	17	26
\$100,000	25	56	87
\$150,000	49	109	169
\$200,000	74	164	253
\$250,000	95	210	325
\$300,000	116	257	397
\$400,000	161	355	550
\$500,000	208	461	714

1.5 Costs for APRA regulated funds

Our report *Superannuation Fees Research June 2012* prepared for and published by the Financial Service Council provides a detailed overview of the level of fees charged by retail and not-for-profit superannuation funds regulated by APRA. Our research was based on published APRA statistics supplemented by information in the Product Disclosure Statements, annual reports and surveys of fund fees.

We have relied on this research to provide a comparison to the costs of operating SMSFs. More details are presented in Section 4 (Costs for APRA regulated funds).

We have determined the costs for APRA regulated funds on the basis that the asset balance at various levels is held by one or two members. These costs are shown in Table 7 to Table 9.

Table 7. Range of annual costs Industry fund – Accumulation account

Balance	One member			Two members		
	Low	Mid	High	Low	Mid	High
\$50,000	\$337	\$468	\$668	\$389	\$536	\$746
\$100,000	\$622	\$868	\$1,258	\$674	\$936	\$1,336
\$150,000	\$907	\$1,268	\$1,848	\$959	\$1,336	\$1,926
\$200,000	\$1,192	\$1,668	\$2,438	\$1,244	\$1,736	\$2,516
\$250,000	\$1,477	\$2,068	\$3,028	\$1,529	\$2,136	\$3,106
\$300,000	\$1,762	\$2,468	\$3,618	\$1,814	\$2,536	\$3,696
\$400,000	\$2,332	\$3,268	\$4,798	\$2,384	\$3,336	\$4,876
\$500,000	\$2,902	\$4,068	\$5,978	\$2,954	\$4,136	\$6,056

Table 8. Range of annual costs of Retail Master Trusts

Balance	One member			Two members		
	Low	Mid	High	Low	Mid	High
\$50,000	\$308	\$804	\$1,061	\$371	\$888	\$1,162
\$100,000	\$553	\$1,524	\$2,021	\$616	\$1,608	\$2,122
\$150,000	\$798	\$2,244	\$2,981	\$861	\$2,328	\$3,082
\$200,000	\$1,043	\$2,964	\$3,941	\$1,106	\$3,048	\$4,042
\$250,000	\$1,288	\$3,684	\$4,901	\$1,351	\$3,768	\$5,002
\$300,000	\$1,533	\$4,404	\$5,861	\$1,596	\$4,488	\$5,962
\$400,000	\$2,023	\$5,844	\$7,781	\$2,086	\$5,928	\$7,882
\$500,000	\$2,513	\$7,284	\$9,701	\$2,576	\$7,368	\$9,802

Table 9. Range of annual costs of Retail Personal Superannuation

Balance	One member			Two members		
	Low	Mid	High	Low	Mid	High
\$50,000	\$634	\$950	\$1,205	\$663	\$1,020	\$1,445
\$100,000	\$1,239	\$1,830	\$2,170	\$1,268	\$1,900	\$2,410
\$150,000	\$1,844	\$2,710	\$3,135	\$1,873	\$2,780	\$3,375
\$200,000	\$2,449	\$3,590	\$4,100	\$2,478	\$3,660	\$4,340
\$250,000	\$3,054	\$4,470	\$5,065	\$3,083	\$4,540	\$5,305
\$300,000	\$3,659	\$5,350	\$6,030	\$3,688	\$5,420	\$6,270
\$400,000	\$4,869	\$7,110	\$7,960	\$4,898	\$7,180	\$8,200
\$500,000	\$6,079	\$8,870	\$9,890	\$6,108	\$8,940	\$10,130

The superannuation industry is currently implementing a number of product changes because of the requirements of MySuper. Market responses to date indicate that the changes will not be great for industry funds and that their fees are likely to be similar to current prices.

A range of low cost retail personal superannuation products are now entering the market that have fee structures significantly lower than the existing products. These products are primarily being offered by the banks (and AMP) and are designed to compete with industry funds under the new MySuper regime. Their fee structures are broadly equivalent to industry funds and for comparative purposes these products can be considered as equivalent to industry funds.

1.6 Analysis and commentary

The full analysis is presented in Section 5 (Analysis and commentary).

As there is a range of costs for all fund types, the costs for each type overlap with the costs of the others. It is therefore not possible to fix on a specific set of costs and say that one product is cheaper than another for some specified balance. We therefore present the range of costs for SMSFs of various size balances and indicate whether the fee is:

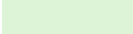
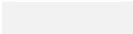

- Above the range of fees for equivalent balances held in industry or retail funds – i.e. that it is above the High fee for that account balance.
- Within the range of fees for equivalent balances held in industry or retail funds – i.e. that it is between the Low and High fee for that account balance.
- Below the range of fees for equivalent balances held in industry or retail funds – i.e. that it is below the Low fee for that account balance.

Table 10 shows these comparisons for SMSFs that outsource only their compliance administration and also for those that outsource all their administration.

Table 10. Comparison of annual costs of SMSFs - Accumulation accounts

Balance	SMSF compliance admin			SMSF full admin		
	Low	Mid	High	Low	Mid	High
\$50,000	\$1,171	\$1,555	\$2,393	\$2,476	\$4,250	\$7,469
\$100,000	\$1,188	\$1,594	\$2,454	\$2,493	\$4,289	\$7,530
\$150,000	\$1,212	\$1,647	\$2,536	\$2,517	\$4,342	\$7,612
\$200,000	\$1,237	\$1,702	\$2,620	\$2,542	\$4,397	\$7,696
\$250,000	\$1,258	\$1,748	\$2,692	\$2,563	\$4,443	\$7,768
\$300,000	\$1,279	\$1,795	\$2,764	\$2,584	\$4,490	\$7,840
\$400,000	\$1,324	\$1,893	\$2,917	\$2,629	\$4,588	\$7,993
\$500,000	\$1,371	\$1,999	\$3,081	\$2,676	\$4,694	\$8,157

Key:

-  SMSF Fee below range for Retail and Industry funds
-  SMSF Fee within range for Retail and Industry funds
-  SMSF Fee above range for Retail and Industry funds

Comparing the cost of SMSF and the cost of Industry and Retail Funds, we can observe the following:

- SMSFs with less than \$100,000 are not competitive in comparison to APRA regulated funds:
 - SMSFs with less than \$50,000 are more expensive than all alternatives.
 - Between \$50,000 and \$100,000 the cheapest SMSFs become cheaper than only the most expensive retail personal superannuation plans.
 - SMSFs of this size would only be appropriate if they are expected to grow to a competitive size within a reasonable time. See Section 6.4 (The age and growth prospects for the SMSF).
- SMSFs with \$100,000 to \$150,000 are competitive with traditional retail personal superannuation plans provided the trustees undertake some of the administration:
 - The Low and Mid fees for SMSFs for Compliance Administration are in the ranges of fees for retail funds for balances of \$100,000 and \$150,000. It would therefore be possible for members with balances of these sizes to obtain a modest reduction in costs by moving to an SMSF provided the trustees carry out the broader investment administration functions.
 - Industry funds and the new personal superannuation products are, however, a cheaper alternative for this size of balance.
- SMSFs with \$200,000 or more are competitive with both industry and retail funds provided the trustees undertake some of the administration:
 - The Low fees for SMSFs for Compliance Administration are close to the Low fees for industry funds and corporate master trusts.
 - Members moving to SMSFs from industry or retail funds with balances at this level could obtain equivalent or cheaper fees provided the trustees carry out the broader investment administration functions.
- For balances of \$250,000 or more SMSFs become the cheapest alternative provided the trustees undertake some of the administration.

- SMSFs requiring full services:
 - Can be competitive with traditional retail personal super plans provided they use a lower cost supplier and their balance is at least \$150,000 of assets, but industry funds and the new personal superannuation products are still significantly cheaper alternatives.
 - Can be competitive with industry funds, the new personal superannuation products and corporate master trusts provided they are simple, use a lower cost supplier and have at least \$250,000 of assets.
 - Are competitive with industry and retail funds for all levels of service and fees provided their balance is at least \$500,000 and may be the cheapest option.
- At sizes above \$500,000, SMSFs can be the cheapest alternative. The Low fees for full service SMSFs of \$500,000 are cheaper than the alternatives. The Mid and High fees are within the range of the APRA funds. Members moving to SMSFs from industry or retail funds with balances at this level could obtain equivalent or cheaper fees. It is also possible that SMSFs paying the higher fees have more complex investment arrangements that are not possible within an APRA regulated fund.
- The comparisons for SMSFs paying pensions are very similar to those for accumulation funds. Costs are higher for the SMSFs paying pensions, but so are the fees for APRA regulated funds. See also Section 6.7 (Smaller balances at older ages).
- The comparisons for funds comprising two members are little different from the comparisons for funds comprising a single member. The extra per member fees for the APRA regulated funds are generally small in relation to the total fees charged.

In summary:

- SMSFs with balances of \$200,000 or more can provide equivalent value to industry and retail funds provided the trustees undertake some of the administration.
- SMSFs with balances of \$500,000 or more can provide equivalent value to industry and retail funds on a full service basis.

1.7 Other considerations

Whilst this report focuses on the costs of operating SMSFs, costs are not the only consideration when making the decision as to whether to invest in an SMSF or an APRA regulated fund. These issues are discussed in detail in Section 6 (Other considerations) and include:

- The time available to and the expertise of the Trustees;
- The guarantee available to members of APRA regulated funds;
- Asset allocations;
- Fee subsidies which can reduce the costs to members of APRA regulated funds;
- The age and growth prospects of the SMSF;
- Gearing; and
- Dealing with falling balances at older ages.

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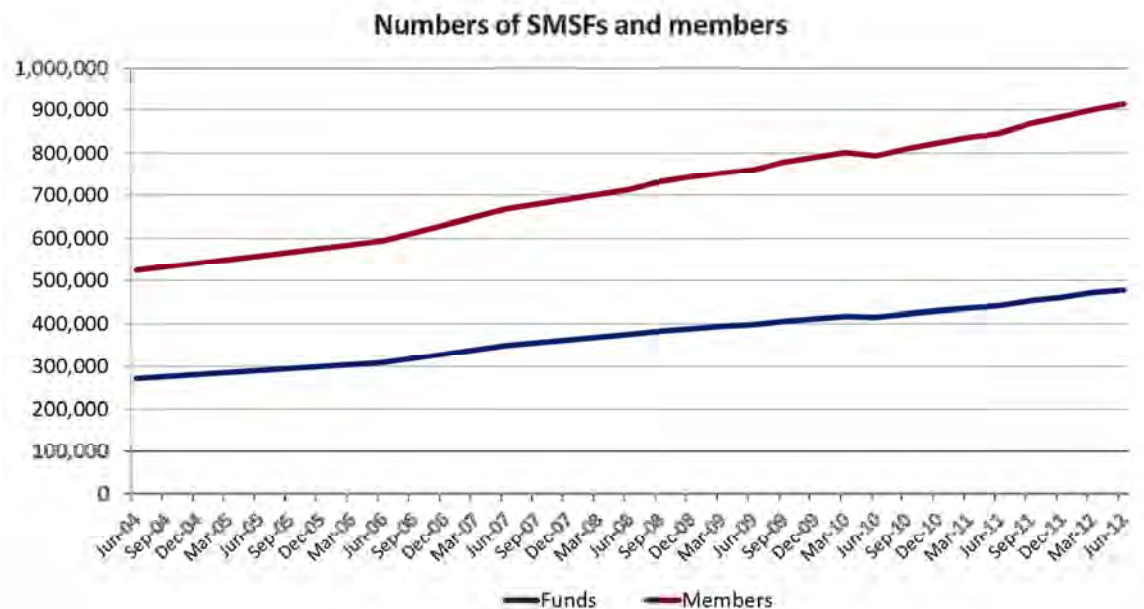
2. Overview of the SMSF market

In order to provide a context for the analysis of the costs of operating an SMSF, we have prepared an overview of the market. The statistics have been extracted from the *Self-managed super fund statistical report - June 2012* produced by the Australian Taxation Office (ATO). It should be noted that not all statistical items are updated to June 2012 in this report. For some, the most recent reporting date is June 2011.

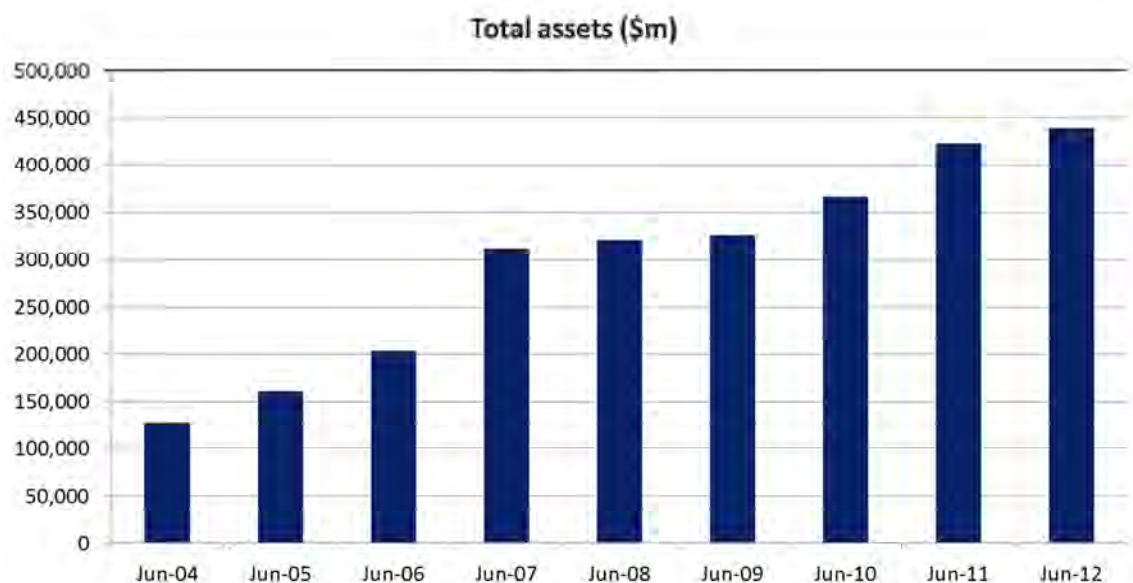
2.1 Numbers and sizes

These statistics show that the SMSF market continues to grow strongly as illustrated in the following graphs.

Graph 2. Growth in number of SMSFs and number of SMSF members



Graph 3. Growth in SMSFs assets



The establishments over recent years are provided in Table 11 which shows the number of funds established and terminated for the financial years 2009 to 2012.

Table 11. Establishments of SMSFs

Financial Year	2009	2010	2011	2012
Establishments	32,586	29,913	33,139	36,270
Wind Ups	8,582	14,699	5,108	994
Net Establishments	24,004	15,214	28,031	35,276
Total number of funds	399,742	414,956	442,987	478,263
Total number of members	759,271	792,827	846,227	913,550

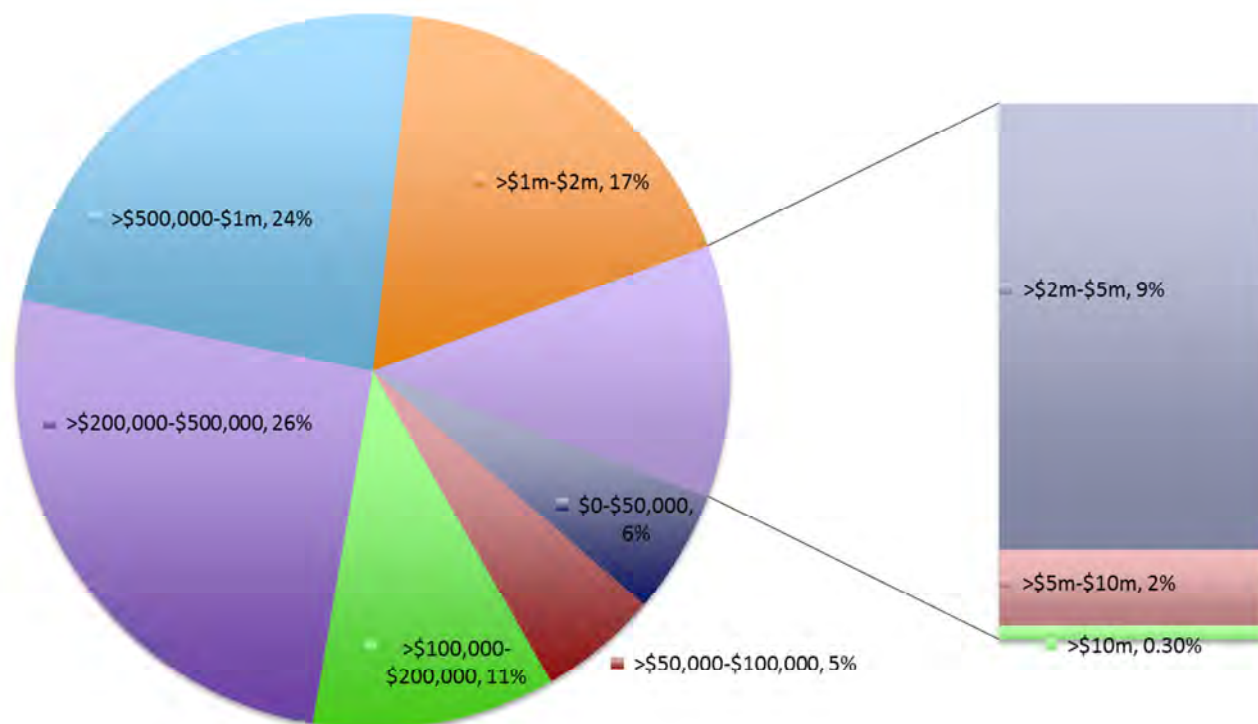
The 2012 statistics are an extrapolation of the 2011 results and are subject to change. Past experience indicates that the number of Wind Ups will be revised upwards and hence, the number of Net Establishments revised downwards. Nonetheless, there is continuing strong demand for the establishment of SMSFs.

The distribution of SMSFs by asset size is relevant to this study. Table 12 and Graph 4 illustrate the proportion of funds by size for the 2010-11 financial year. These statistics show that approximately 22% of funds have less than \$200,000 of assets.

Table 12. Proportion of SMSFs by fund size (2010-11 Financial Year)

Asset Ranges	Percentage
\$0-\$50,000	5.60
>\$50,000-\$100,000	5.40
>\$100,000-\$200,000	11.00
>\$200,000-\$500,000	25.50
>\$500,000-\$1m	23.60
>\$1m-\$2m	17.50
>\$2m-\$5m	9.50
>\$5m-\$10m	1.60
>\$10m	0.30
Total	100%

Graph 4. Proportion of SMSFs by fund size (2010-11 Financial Year)



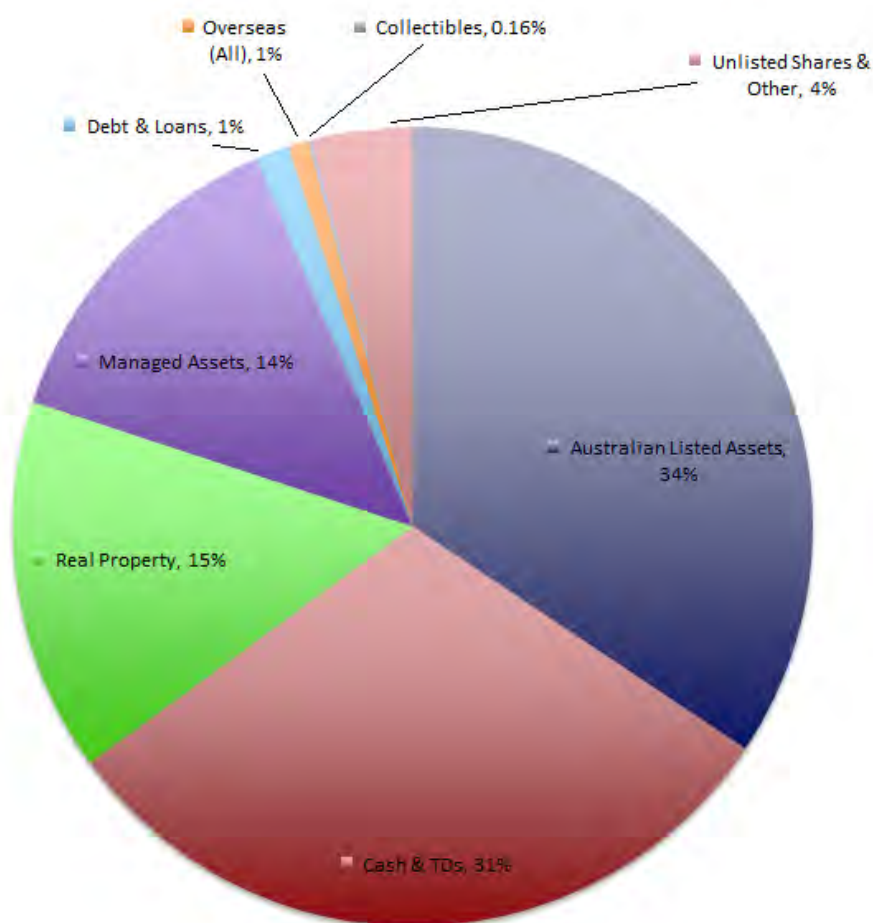
2.2 Investment allocations

The assets for these funds are allocated across a wide range of asset classes as shown in Table 13 and Graph 5 illustrate the average asset allocation for the whole industry.

Table 13. Average asset allocation of SMSFs (\$bn at June 2012)

Asset classes	
Australian Listed Assets	\$150,948
Cash & Term Deposits	\$134,103
Real Property	\$66,385
Managed Assets	\$59,406
Debt & Loans	\$6,059
Overseas (All)	\$3,573
Collectibles	\$709
Unlisted Shares & other	\$17,811
Total assets (\$m)	\$438,994

Graph 5. Average asset allocation of SMSFs (\$bn at June 2012)



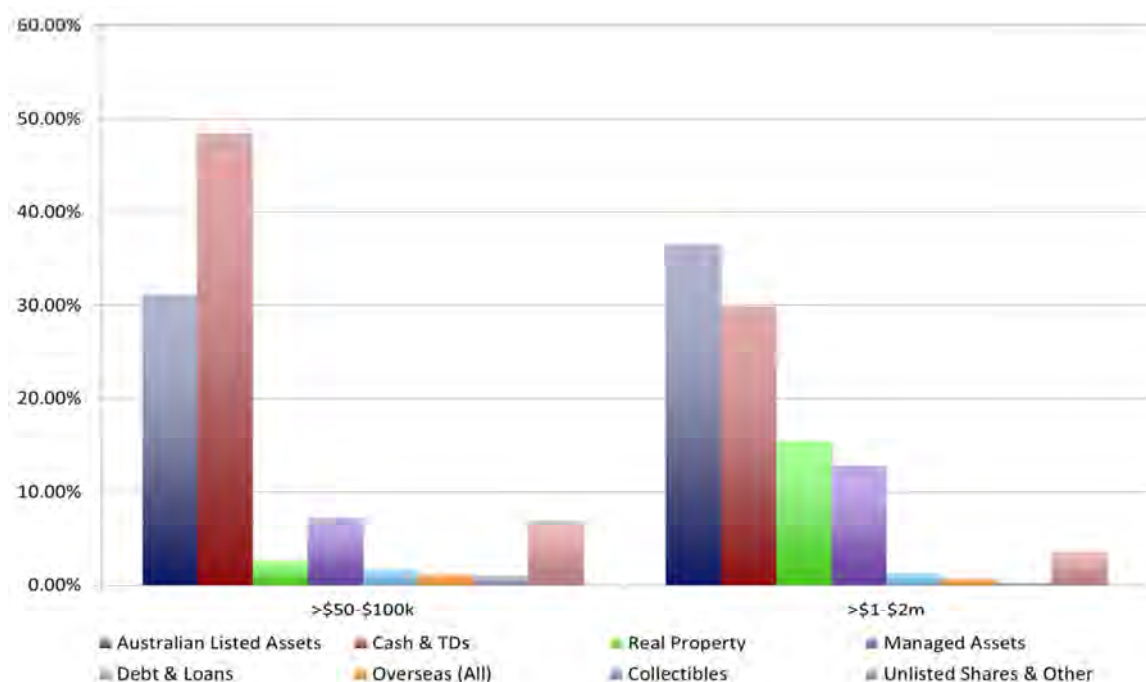
Asset allocations, however, depend on the size of the SMSF as is illustrated in Table 14.

Table 14. Asset allocation by size of SMSFs (2010-11 Financial Year)

	\$1- \$50k	>\$50- \$100k	>\$100- 150k	>\$150- 200k	>\$200- \$500k	>\$500k- \$1m	>\$1- \$2m	>\$2- \$5m	>\$5- \$10m	>\$10m
	(%)									
Australian Listed Assets	25	31	34	36	37	37	37	36	37	37
Cash & TDs	57	48	44	40	34	31	30	27	24	19
Real Property	1	3	4	6	12	14	15	17	16	14
Managed Assets	4	7	9	11	12	12	13	14	16	18
Debt & Loans	2	2	1	1	1	1	1	1	2	3
Overseas (All)	1	1	1	1	1	1	1	1	1	2
Collectibles	1	1	1	1	0	0	0	0	0	0
Unlisted Shares & Other	9	7	6	5	4	3	4	4	5	6
Total assets (\$m)	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Graph 6 compares the asset allocation of funds with assets of \$50k to \$100k to funds with assets of \$1 million to \$2 million.

Graph 6. Average asset allocation of SMSFs³



Small funds have much greater allocations to Cash and Term Deposits and lower allocations to Australian Shares, Property and Managed Assets. This, in part, reflects the greater capacity of larger funds to diversify their assets and to invest in assets (like property) that require larger holdings.

It is possible that the smaller funds are also younger funds still holding cash and related assets as they seek to invest in the higher yielding asset classes. They could also be funds in pension phase where most assets have been withdrawn as pension payments. We have been unable to confirm this.

There has also been significant interest over recent years by trustees and promoters in holding geared property within SMSFs. There are also indications that this might be occurring with small SMSFs. Unfortunately the statistics do not yet adequately cover these recent trends.

More detailed statistics from the ATO would clarify both the age distribution of funds and the extent of any trend to investments in geared property.

2.3 Investment returns

It is not possible to provide detailed statistics on the performance of individual SMSFs because there is no reporting requirement. The annual ATO statistics do, however, allow an approximate aggregate return for the whole sector to be calculated and compared to the equivalent return for APRA regulated funds. It should be noted that this approach aggregates funds and investment portfolios with different asset allocations and different investment objectives. Individual funds will therefore have performed both better and worse than these averages. Nonetheless the approach provides a useful high level comparison.

Table 15 shows the aggregate rates of return for the APRA and SMSF segments for the years ending 30 June 2005 to 2011.

Table 15. Comparison of aggregate investment returns

Year End 30 June	APRA Gross of fees	SMSF Gross of fees
2005	13.2%	17.4%
2006	14.0%	16.0%
2007	15.6%	20.1%
2008	-7.6%	-4.0%
2009	-11.9%	-4.5%
2010	9.8%	8.3%
2011	8.7%	11.2%
7 Year Average	5.4%	8.8%

The SMSF sector has delivered higher returns than the APRA sector in six of the last seven years in both good years and bad years. There are a number of reasons for these results including differences between the APRA and ATO data. These results may not support the proposition that SMSFs are better investment managers than APRA funds, but they do indicate that members of SMSFs, in aggregate, are not disadvantaged when compared to APRA funds.

3. Costs for SMSFs

There is a wide range of service providers to the SMSF market including:

- accountants
- financial advisers
- lawyers
- administrators.

The use that SMSF trustees make of these service providers, and hence the costs they pay, depends on the preferences and capabilities of the trustees. Some choose to carry out as much of the administration and accounting as they can themselves and only use advisers for the services they cannot carry out, such as audits and tax lodgements. Others rely on service providers for all functions.

We have estimated the range of costs for the setup and running of SMSFs, through the marketing material of, and interviews with a number of SMSF administration services suppliers, accountants and auditors. As would be expected with a dynamic market, there is a range of costs that reflect the range of complexity of the SMSFs themselves. Costs for simple funds with little complexity and the trustee seeking only transactional services will generally be at the low end of the range. Funds with more complexity and/or where the trustee requires more assistance will generally be at the high end of the range.

It is not possible to determine how these costs are distributed across the market, by size of fund because there are no statistics that show expenses by size of fund. We have therefore presented the High, Low and Mid point costs in each category.

3.1 Costs of establishment

Members can simply join a retail or industry superannuation fund, but if they wish to operate an SMSF the fund needs to be formally established. The costs associated with these establishments include:

- The legal and related costs of establishing and registering the superannuation trust including:
 - trust deed
 - ATO application forms
 - cash management account application
 - provision of binding death nomination forms
 - sample investment strategy
 - notice of election to become a regulated fund
 - general trust advice.
- The legal and related costs of establishing and registering the corporate trustee for those SMSFs that choose this route in preference to having individual trustees including:
 - searches and reservations of company names
 - preparation of company constitutions and Memoranda and Articles of association
 - incorporation and registration of the entity
 - general Corporations Law advice.

The most common recommendation to those seeking to establish an SMSF is that they use a corporate trustee because it provides for simpler succession of trustees, inclusion of new members and the ownership of assets. It is also common for those, like small business operators, who already have a company to be advised to establish a separate trustee company separate from their business. The costs of establishing the corporate trustee are therefore commonly incurred. The range of these costs is shown in Table 16.

Table 16. Range of costs for establishment of an SMSF

Fee	Low	Mid	High
SMSF Setup	\$345	\$485	\$990
Setup of corporate trustee			
ASIC fee	\$433	\$433	\$433
Service provider fee	\$138	\$367	\$612
Total	\$916	\$1,285	\$2,035

3.2 Annual compliance costs

There is a range of fees that are necessarily incurred in operating an SMSF as they are either government charges or require professional support. We refer to these as the annual compliance administration costs and they include costs for:

- statutory charges
- financial statements and tax return
- audit.

The range of costs are shown in Table 17. Simpler funds will generally incur costs at the low end of the range and more complex funds at the high end. It is also the case that the service providers considered generally charge a higher fee if the fund is paying pensions, to cover the larger number of transactions and the extra compliance related to pension payments. Table 17 therefore shows the range of costs for both funds that are accumulation only and for those that pay pensions.

If a fund paying pensions also has accumulation accounts and does not segregate assets for the two categories, it needs to allocate its income between the two categories for tax purposes and for this it requires an actuarial certificate. These certificates are generally available for between \$180 and \$260.

Table 17. Range of annual compliance administration costs

Fee	Low	Mid	High
Annual ASIC fee (special purpose company)	\$43	\$43	\$43
ATO supervisory levy	\$200	\$200	\$200
Audit fee	\$300	\$440	\$500
Financial Statement and Tax Return	\$620	\$855	\$1,624
Total accumulation	\$1,163	\$1,538	\$2,367
Fee if the fund pays pension	\$250	\$264	\$330
Actuarial certificate	\$180	\$210	\$260
Total Pension (no certificate)	\$1,413	\$1,802	\$2,697
Total Pension (with certificate)	\$1,593	\$2,012	\$2,957

3.3 Non-standard assets

Most providers also levy extra charges for these services if the fund holds non-standard assets or borrows to finance an asset purchase. The application of these extra fees to specific asset types varies between the service providers as does the level of the fees. We have excluded them from the comparison of costs because their application is very specific to particular funds and because the smaller funds, which are our primary focus, do not make much use of these asset classes, see Table 14.

Table 18 provides a representative example of the application and size of these fees.

Table 18. Example of additional charges for non-standard assets¹

Asset type	Annual fee
Real property	\$220 p.a. per property
Borrowing arrangement	\$220 p.a. per borrowing arrangement
Unlisted shares	\$220 p.a. per unlisted shares
Private Trusts	\$220 p.a. per private trust
In-house assets	\$220 p.a. per in-house asset
Loans	\$220 p.a. per loan
Collectables	\$110 p.a. per collection type
Derivatives Trading Account	\$220 p.a. per trading unit
Plant, equipment and capital improvements (e.g. renovations, appliances etc.)	\$220 p.a.
Additional audit fee	\$66 per special asset type

3.4 Investment management

SMSFs make use of managed funds for a small proportion of their investments and as a result incur fees for investment management based on the size of their holding. Table 14 shows asset allocations for SMSFs for the 2010-11 financial year.

The allocation to managed funds for the SMSFs considered in this report, namely those with asset balances up to \$500,000 range from 4% for the smallest funds to 12% for the largest.

There is a wide range of investment management fees charged in the market. We have estimated the range of fees likely to be paid by SMSFs as:

Table 19. Investment fee range

Fee level	Fee
Low	0.35% pa
Mid	0.775% pa
High	1.20% pa

¹ <http://www.superconcepts.com.au/fees-and-charges>

These fees represent the range that is encountered in the market for products ranging from simple index funds to actively managed funds for speciality assets. Some Exchange Traded Funds have even lower fees than the Low fee shown so the Low estimate is conservative.

On the basis of these fees and the asset allocation shown in Table 14, the extra yearly costs that should be considered for SMSFs are:

Table 20. SMSF yearly investment management fees

Fund Balance	Investment management fee (\$)		
	Low	Mid	High
\$50,000	8	17	26
\$100,000	25	56	87
\$150,000	49	109	169
\$200,000	74	164	253
\$250,000	95	210	325
\$300,000	116	257	397
\$400,000	161	355	550
\$500,000	208	461	714

3.5 Full administration

Many service providers offer other services in addition to the basic requirement of compliance administration. These services include investment accounting, access to online investment platforms and investment analysis and reporting. The range of costs for the full administration service (including all services of compliance administration) is presented in Table 21.

Table 21. Range of annual full administration costs

Fee	Low	Mid	High
Full administration Fee	\$2,225	\$3,990	\$7,200
ASIC fee and ATO levy	\$243	\$243	\$243
Total accumulation	\$2,468	\$4,233	\$7,443
Fee if fund pays pension	\$250	\$264	\$330
Actuarial certificate	\$180	\$210	\$260
Total Pension (no certificate)	\$2,718	\$4,497	\$7,773
Total Pension (with certificate)	\$2,898	\$4,707	\$8,033

3.6 Advice

We have excluded the costs of general and strategic financial and investment advice from the comparison because those seeking to establish SMSFs can in the main be regarded as ‘engaged investors’. Their choice of superannuation vehicle is unlikely to alter their level of engagement nor the level or types of financial and investment advice sought.

Some holders of current personal superannuation products will have a fee for advice automatically included in their costs, but as retail products no longer automatically include the cost of advice, it is realistic to exclude this component when comparing the cost of products.

3.7 Winding up an SMSF

There are a number of reasons why an SMSF will be wound up including:

- Marital breakdowns;
- Migration out of Australia; or
- The desire to stop administering the SMSF and to transfer the benefits to an APRA fund.

The process for winding up the fund includes:

- Preparing final financial statements for the fund;
- Having the fund audited;
- Lodging tax returns;
- Paying all levies;
- Paying or transferring benefits;
- Closing accounts;

- Notifying the ATO of the wind up;
- Deregistering any corporate trustee.

The work required for these tasks is equivalent to the work required for the annual compliance administration of the fund. The levies are also equivalent to those required for the annual operation of the fund. The final year costs for the SMSF will therefore be within the ranges specified for the operation of the funds.

A difference when compared to normal operation of the fund will be the need to realise assets. This will incur transaction costs dependent on the particular asset being disposed of. In some cases, the benefit to members may be paid or transferred 'in specie' thereby avoiding some or all of these transaction costs. The disposal or transfer will, however, be a Capital Gains Tax (CGT) event and CGT may be payable. Any losses realised will not be able to be carried forward and will be lost.

4. Costs for APRA regulated funds

Our report *Superannuation Fees Research June 2012* prepared for and published by the Financial Service Council provides a detailed overview of the level of fees charged by retail and not-for-profit superannuation funds regulated by APRA. Our research was based on published APRA statistics supplemented by information in the Product Disclosure Statements, annual reports and surveys of fund fees. We have relied on this research to provide a comparison to the costs of operating SMSFs.

We define superannuation fees to be the amounts charged to members for the costs of managing the fund. Several items are excluded, including:

- taxes and insurance premiums
- fee subsidies made by employers and not charged to the fund
- fees for personal financial advice which are paid direct by members and not taken out of fund fees.

The fees included in our comparison include components for:

- **Operating fees** – these are typically called administration fees by the industry. In the retail sector, they often include platform fees, platforms being the portals set up for multiple investments and which provide consolidated reporting to a member and their adviser.
- **Investment management** – this is the cost of investing and includes the costs of asset consultants and in-house investment teams.

Fees for advice have been excluded as discussed in Section 3.6 (Advice).

We have considered the fees for industry funds, retail personal superannuation, retail corporate master trusts and retail post retirement (pension) products. The superannuation industry is currently restructuring its products to comply with the new MySuper regime. From indications to date from market participants, the changes are unlikely to be great for industry funds and their fees are likely to be similar to current prices. The costs presented for industry funds are therefore appropriate for this analysis.

A range of low cost retail personal superannuation products are now entering the market that have fee structures significantly lower than the existing products. These products are primarily being offered by the banks and AMP, and are designed to compete with industry funds under the new MySuper regime. Their fee structures are broadly equivalent to industry funds and for comparative purposes these products can be considered as equivalent to industry funds.

We expect these lower cost personal superannuation products to replace the current products once the new regime begins in July 2013. The fee structures presented for industry funds should therefore be considered as the benchmark for personal superannuation products under the new regime.

The fee structures presented for personal superannuation products are, however, the appropriate benchmark when considering current products and SMSFs established under the current superannuation regime.

The range of annual fees of industry and retail funds by account balance is shown in Table 22 to Table 26. Fees are quoted on the basis of the balance being held by either one or two members. This is to allow comparison with SMSFs which most frequently have two members and an average membership of 1.9.

Table 22. Range of annual costs industry fund – Accumulation account

Balance	One member			Two members		
	Low	Mid	High	Low	Mid	High
\$50,000	\$337	\$468	\$668	\$389	\$536	\$746
\$100,000	\$622	\$868	\$1,258	\$674	\$936	\$1,336
\$150,000	\$907	\$1,268	\$1,848	\$959	\$1,336	\$1,926
\$200,000	\$1,192	\$1,668	\$2,438	\$1,244	\$1,736	\$2,516
\$250,000	\$1,477	\$2,068	\$3,028	\$1,529	\$2,136	\$3,106
\$300,000	\$1,762	\$2,468	\$3,618	\$1,814	\$2,536	\$3,696
\$400,000	\$2,332	\$3,268	\$4,798	\$2,384	\$3,336	\$4,876
\$500,000	\$2,902	\$4,068	\$5,978	\$2,954	\$4,136	\$6,056

Table 23. Range of annual costs Industry fund – Pension account

Balance	One member			Two members		
	Low	Mid	High	Low	Mid	High
\$50,000	\$337	\$493	\$719	\$389	\$551	\$823
\$100,000	\$622	\$928	\$1,334	\$674	\$986	\$1,438
\$150,000	\$907	\$1,363	\$1,949	\$959	\$1,421	\$2,053
\$200,000	\$1,192	\$1,798	\$2,564	\$1,244	\$1,856	\$2,668
\$250,000	\$1,477	\$2,233	\$3,179	\$1,529	\$2,291	\$3,283
\$300,000	\$1,762	\$2,668	\$3,794	\$1,814	\$2,726	\$3,898
\$400,000	\$2,332	\$3,538	\$5,024	\$2,384	\$3,596	\$5,128
\$500,000	\$2,902	\$4,408	\$6,254	\$2,954	\$4,466	\$6,358

Table 24. Range of annual costs of Retail Master Trusts

Balance	One member			Two members		
	Low	Mid	High	Low	Mid	High
\$50,000	\$308	\$804	\$1,061	\$371	\$888	\$1,162
\$100,000	\$553	\$1,524	\$2,021	\$616	\$1,608	\$2,122
\$150,000	\$798	\$2,244	\$2,981	\$861	\$2,328	\$3,082
\$200,000	\$1,043	\$2,964	\$3,941	\$1,106	\$3,048	\$4,042
\$250,000	\$1,288	\$3,684	\$4,901	\$1,351	\$3,768	\$5,002
\$300,000	\$1,533	\$4,404	\$5,861	\$1,596	\$4,488	\$5,962
\$400,000	\$2,023	\$5,844	\$7,781	\$2,086	\$5,928	\$7,882
\$500,000	\$2,513	\$7,284	\$9,701	\$2,576	\$7,368	\$9,802

Table 25. Range of annual costs of Retail Personal Super

Balance	One member			Two members		
	Low	Mid	High	Low	Mid	High
\$50,000	\$634	\$950	\$1,205	\$663	\$1,020	\$1,445
\$100,000	\$1,239	\$1,830	\$2,170	\$1,268	\$1,900	\$2,410
\$150,000	\$1,844	\$2,710	\$3,135	\$1,873	\$2,780	\$3,375
\$200,000	\$2,449	\$3,590	\$4,100	\$2,478	\$3,660	\$4,340
\$250,000	\$3,054	\$4,470	\$5,065	\$3,083	\$4,540	\$5,305
\$300,000	\$3,659	\$5,350	\$6,030	\$3,688	\$5,420	\$6,270
\$400,000	\$4,869	\$7,110	\$7,960	\$4,898	\$7,180	\$8,200
\$500,000	\$6,079	\$8,870	\$9,890	\$6,108	\$8,940	\$10,130

Table 26. Range of annual costs of Retail Retirement Products

Balance	One member			Two members		
	Low	Mid	High	Low	Mid	High
\$50,000	\$600	\$898	\$956	\$600	\$936	\$1,037
\$100,000	\$1,200	\$1,758	\$1,831	\$1,200	\$1,796	\$1,912
\$150,000	\$1,800	\$2,618	\$2,706	\$1,800	\$2,656	\$2,787
\$200,000	\$2,400	\$3,478	\$3,581	\$2,400	\$3,516	\$3,662
\$250,000	\$3,000	\$4,338	\$4,456	\$3,000	\$4,376	\$4,537
\$300,000	\$3,600	\$5,198	\$5,331	\$3,600	\$5,236	\$5,412
\$400,000	\$4,800	\$6,918	\$7,081	\$4,800	\$6,956	\$7,162
\$500,000	\$6,000	\$8,638	\$8,831	\$6,000	\$8,676	\$8,912

5. Analysis and commentary

As there is a range of costs for all fund types, the costs for each type overlap with the costs of the others. It is therefore not possible to fix on a specific set of costs and say that one product is cheaper than another for some specified balance. We therefore present the range of costs for SMSFs of various size balance and indicate whether the fee is:

- Above the range of fees for equivalent balances held in industry or retail funds – i.e. that it is above the High fee for that account balance.
- Within the range of fees for equivalent balances held in industry or retail funds – i.e. that it is between the Low and High fee for that account balance.
- Below the range of fees for equivalent balances held in industry or retail funds – i.e. that it is below the Low fee for that account balance.

We present these comparisons for SMSFs that outsource only their compliance administration and also for those that outsource all their administration.

We then comment on these comparisons.

5.1 Accumulation accounts

Table 27 provides the comparison of the costs of operating an SMSF that has only accumulation benefits with the comparable costs in industry and retail funds. Table 28 shows the costs within industry and retail funds should the relevant account balance be held by one member and Table 29 shows the equivalent costs should the account balance be held by two members.

The colour coding of the cells indicates whether the SMSF costs lie above, within or below the range of the costs for industry and retail funds.

Table 27. Comparison of annual costs of SMSFs - Accumulation accounts

Balance	SMSF compliance admin			SMSF full admin		
	Low	Mid	High	Low	Mid	High
\$50,000	\$1,171	\$1,555	\$2,393	\$2,476	\$4,250	\$7,469
\$100,000	\$1,188	\$1,594	\$2,454	\$2,493	\$4,289	\$7,530
\$150,000	\$1,212	\$1,647	\$2,536	\$2,517	\$4,342	\$7,612
\$200,000	\$1,237	\$1,702	\$2,620	\$2,542	\$4,397	\$7,696
\$250,000	\$1,258	\$1,748	\$2,692	\$2,563	\$4,443	\$7,768
\$300,000	\$1,279	\$1,795	\$2,764	\$2,584	\$4,490	\$7,840
\$400,000	\$1,324	\$1,893	\$2,917	\$2,629	\$4,588	\$7,993
\$500,000	\$1,371	\$1,999	\$3,081	\$2,676	\$4,694	\$8,157

Key:

- SMSF Fee below range for Retail and Industry funds
- SMSF Fee within range for Retail and Industry funds
- SMSF Fee above range for Retail and Industry funds

Table 28. Cost of APRA regulated funds –Accumulation accounts (Single member)

Balance	Industry			Retail Personal Superannuation			Retail Corporate Master trusts		
	Low	Mid	High	Low	Mid	High	Low	Mid	High
\$50,000	\$337	\$468	\$668	\$634	\$950	\$1,205	\$308	\$804	\$1,061
\$100,000	\$622	\$868	\$1,258	\$1,239	\$1,830	\$2,170	\$553	\$1,524	\$2,021
\$150,000	\$907	\$1,268	\$1,848	\$1,844	\$2,710	\$3,135	\$798	\$2,244	\$2,981
\$200,000	\$1,192	\$1,668	\$2,438	\$2,449	\$3,590	\$4,100	\$1,043	\$2,964	\$3,941
\$250,000	\$1,477	\$2,068	\$3,028	\$3,054	\$4,470	\$5,065	\$1,288	\$3,684	\$4,901
\$300,000	\$1,762	\$2,468	\$3,618	\$3,659	\$5,350	\$6,030	\$1,533	\$4,404	\$5,861
\$400,000	\$2,332	\$3,268	\$4,798	\$4,869	\$7,110	\$7,960	\$2,023	\$5,844	\$7,781
\$500,000	\$2,902	\$4,068	\$5,978	\$6,079	\$8,870	\$9,890	\$2,513	\$7,284	\$9,701

Table 29. Cost of APRA regulated funds –Accumulation Accounts (Two members)

Balance	Industry			Retail Personal Superannuation			Retail Corporate Master trusts		
	Low	Mid	High	Low	Mid	High	Low	Mid	High
\$50,000	\$389	\$536	\$746	\$663	\$1,020	\$1,445	\$371	\$888	\$1,162
\$100,000	\$674	\$936	\$1,336	\$1,268	\$1,900	\$2,410	\$616	\$1,608	\$2,122
\$150,000	\$959	\$1,336	\$1,926	\$1,873	\$2,780	\$3,375	\$861	\$2,328	\$3,082
\$200,000	\$1,244	\$1,736	\$2,516	\$2,478	\$3,660	\$4,340	\$1,106	\$3,048	\$4,042
\$250,000	\$1,529	\$2,136	\$3,106	\$3,083	\$4,540	\$5,305	\$1,351	\$3,768	\$5,002
\$300,000	\$1,814	\$2,536	\$3,696	\$3,688	\$5,420	\$6,270	\$1,596	\$4,488	\$5,962
\$400,000	\$2,384	\$3,336	\$4,876	\$4,898	\$7,180	\$8,200	\$2,086	\$5,928	\$7,882
\$500,000	\$2,954	\$4,136	\$6,056	\$6,108	\$8,940	\$10,130	\$2,576	\$7,368	\$9,802

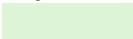
5.2 Pension accounts

Table 30 provides a comparison of the costs of operating an SMSF that has pension benefits with the comparable costs in industry and retail funds of pension accounts shown in Table 31 and Table 32.

Table 30. Comparison of annual costs of SMSFs - Pension Accounts

Balance	SMSF compliance admin			SMSF full admin		
	Low	Mid	High	Low	Mid	High
\$50,000	\$1,421	\$1,819	\$2,723	\$2,726	\$4,250	\$7,469
\$100,000	\$1,438	\$1,858	\$2,784	\$2,743	\$4,289	\$7,530
\$150,000	\$1,462	\$1,911	\$2,866	\$2,767	\$4,342	\$7,612
\$200,000	\$1,487	\$1,966	\$2,950	\$2,792	\$4,397	\$7,696
\$250,000	\$1,508	\$2,012	\$3,022	\$2,813	\$4,443	\$7,768
\$300,000	\$1,529	\$2,059	\$3,094	\$2,834	\$4,490	\$7,840
\$400,000	\$1,574	\$2,157	\$3,247	\$2,879	\$4,588	\$7,993
\$500,000	\$1,621	\$2,263	\$3,411	\$2,926	\$4,694	\$8,157

Key:

 SMSF Fee below range for Retail and Industry funds

 SMSF Fee within range for Retail and Industry funds


 SMSF Fee above range for Retail and Industry funds

Table 31. Cost of APRA regulated funds –Pension accounts (Single member)

Balance	Industry Pension			Retail retirement		
	Low	Mid	High	Low	Mid	High
\$50,000	\$337	\$493	\$719	\$600	\$898	\$956
\$100,000	\$622	\$928	\$1,334	\$1,200	\$1,758	\$1,831
\$150,000	\$907	\$1,363	\$1,949	\$1,800	\$2,618	\$2,706
\$200,000	\$1,192	\$1,798	\$2,564	\$2,400	\$3,478	\$3,581
\$250,000	\$1,477	\$2,233	\$3,179	\$3,000	\$4,338	\$4,456
\$300,000	\$1,762	\$2,668	\$3,794	\$3,600	\$5,198	\$5,331
\$400,000	\$2,332	\$3,538	\$5,024	\$4,800	\$6,918	\$7,081
\$500,000	\$2,902	\$4,408	\$6,254	\$6,000	\$8,638	\$8,831

Table 32. Cost of APRA regulated funds –Pension accounts (Two members)

Balance	Industry Pension			Retail retirement		
	Low	Mid	High	Low	Mid	High
\$50,000	\$389	\$551	\$823	\$600	\$936	\$1,037
\$100,000	\$674	\$986	\$1,438	\$1,200	\$1,796	\$1,912
\$150,000	\$959	\$1,421	\$2,053	\$1,800	\$2,656	\$2,787
\$200,000	\$1,244	\$1,856	\$2,668	\$2,400	\$3,516	\$3,662
\$250,000	\$1,529	\$2,291	\$3,283	\$3,000	\$4,376	\$4,537
\$300,000	\$1,814	\$2,726	\$3,898	\$3,600	\$5,236	\$5,412
\$400,000	\$2,384	\$3,596	\$5,128	\$4,800	\$6,956	\$7,162
\$500,000	\$2,954	\$4,466	\$6,358	\$6,000	\$8,676	\$8,912

5.3 Commentary

Comparing the cost of SMSF and the cost of Industry and Retail Funds, we can observe the following:

- SMSFs with less than \$100,000 are not competitive in comparison to APRA regulated funds:
 - SMSFs with less than \$50,000 are more expensive than all alternatives.
 - Between \$50,000 and \$100,000 the cheapest SMSFs become cheaper than only the most expensive retail personal superannuation plans.
 - SMSFs of this size would only be appropriate if they are expected to grow to a competitive size within a reasonable time. See Section 6.4 (The age and growth prospects for the SMSF).
- SMSFs with \$100,000 to \$150,000 are competitive with traditional retail personal superannuation plans provided the trustees undertake some of the administration:

- The Low and Mid fees for SMSFs for Compliance Administration are in the ranges of fees for retail funds for balances of \$100,000 and \$150,000. It would therefore be possible for members with balances of these sizes to obtain a modest reduction in costs by moving to an SMSF provided the trustees carry out the broader investment administration functions.
- Industry funds and the new personal superannuation products are, however, a cheaper alternative for this size of balance.
- SMSFs with \$200,000 or more are competitive with both industry and retail funds provided the trustees undertake some of the administration:
 - The Low fees for SMSFs for Compliance Administration are close to the Low fees for industry funds and corporate master trusts.
 - Members moving to SMSFs from industry or retail funds with balances at this level could obtain equivalent or cheaper fees provided the trustees carry out the broader investment administration functions.
- For balances of \$250,000 or more SMSFs become the cheapest alternative provided the trustees undertake some of the administration.
- SMSFs requiring full services:
 - Can be competitive with traditional retail personal super plans provided they use a lower cost supplier and their balance is at least \$150,000 of assets, but industry funds and the new personal superannuation products are still significantly cheaper alternatives.
 - Can be competitive with industry funds, the new personal superannuation products and corporate master trusts provided they are simple, use a lower cost supplier and have at least \$250,000 of assets.
 - Are competitive with industry and retail funds for all levels of service and fees provided their balance is at least \$500,000 and may be the cheapest option.
- At sizes above \$500,000, SMSFs can be the cheapest alternative. The Low fees for full service SMSFs of \$500,000 are cheaper than the alternatives. The Mid and High fees are within the range of the APRA funds. Members moving to SMSFs from industry or retail funds with balances at this level could obtain equivalent or cheaper fees. It is also possible that SMSFs paying the higher fees have more complex investment arrangements that are not possible within an APRA regulated fund.
- The comparisons for SMSFs paying pensions are very similar to those for accumulation funds. Costs are higher for the SMSFs paying pensions, but so are the fees for APRA regulated funds. See also Section 6.7 (Smaller balances at older ages).
- The comparisons for funds comprising two members are little different from the comparisons for funds comprising a single member. The extra per member fees for the APRA regulated funds are generally small in relation to the total fees charged.

In summary:

- SMSFs with balances of \$200,000 or more can provide equivalent value to industry and retail funds provided the trustees undertake some of the administration.
- SMSFs with balances of \$500,000 or more can provide equivalent value to industry and retail funds on a full service basis.

6. Other considerations

There are a number of other issues that could influence the comparison of costs and there are issues beyond costs that should also be considered.

6.1 Time and expertise

The commentary in Section 5.3 has highlighted the differences in costs facing those trustees who carry out some of the administration functions and those who outsource them all to third party suppliers. The decision to take on or outsource these functions will generally depend on two factors:

- Whether the trustee has the time to carry out the functions, or, whether their time is worth the extra cost of outsourcing; and
- Whether the trustee feels they have the expertise to carry out the function.

These decisions will naturally be personal matters. The differences between the full service and limited service fees provide an indication of the opportunity cost that individual trustees must consider when making their decision in this regard.

6.2 Guarantee

As has been demonstrated by recent events, most notably Trio, members of APRA regulated funds enjoy a guarantee of their benefits which members of SMSFs do not. Members contemplating transfers to an SMSF must therefore determine whether the extra control and flexibility they will enjoy compensate for the lack of guarantee.

6.3 Fee subsidies

Members of corporate master trusts, corporate superannuation funds, public sector and some industry funds may receive a subsidy from their employer for the fees incurred in respect to the provision of their superannuation. These subsidies were not taken into account in our analysis. The extent of fee subsidies would increase the minimum balance at which an SMSF would be a competitive alternative.

6.4 The age and growth prospects for the SMSF

The analysis clearly shows that SMSFs are an expensive alternative for members with small balances. These members would therefore clearly be disadvantaged should their balances not have the prospect of growing in a reasonable time to a size where the fees are competitive. A small SMSF which is expected to grow rapidly because of contributions or transfers of benefits from other funds may therefore be appropriate whereas it would not be if there was little or no prospect of growth.

CGT is also a consideration when determining whether a small SMSF is appropriate in comparison to cheaper alternatives. A superannuation benefit which is accumulated within, say, an industry fund until it is of sufficient size to justify the switch to an SMSF is subject to a CGT event at the point of transfer. The CGT on the withdrawal of the accumulated balance will be included in the unit prices used at the time to process the withdrawal of the benefit.

If this benefit had instead been accumulated in an SMSF, there would be no CGT event and no CGT payable. The CGT saved would compensate for some or all of the excess fees paid while the benefit was sub-scale.

In the context of the analysis presented in Section 5 (Analysis and commentary), it would seem reasonable to expect an SMSF to reach a size of \$200,000 within two to three years.

6.5 Asset allocations

As noted in Section 3.3 (Non-standard assets), funds that invest in non-standard assets will incur extra compliance administration costs. Investment in these assets, for instance directly held property, will generally not be possible in APRA regulated funds so a direct comparison is not possible. The return generated from these assets should compensate for the extra costs in order to justify their inclusion

On the other hand, funds may confine their investments to simple assets like Term Deposits. These funds should be incurring fees at the low end of the ranges identified. Fees in the upper part of the ranges would not be justified.

6.6 Gearing

A small net asset value for an SMSF may obscure a geared asset position that is fairly substantial. The size of the gross asset and its cash flows may be sufficient to justify an initial small size provided:

- the returns are sufficient to support the excess cost
- the cash flow into the fund is sufficient to service and pay down the debt in order to realise the investment value.

The extent of the gearing is also an issue. A highly geared position that presents a small net asset position would also expose the fund to significant market risk.

6.7 Smaller balances at older ages

SMSFs in the post retirement drawdown phase can be expected to have reducing asset balances especially at older ages where the minimum drawdown required rises to 10% and later 14% of the balance. Some of these funds will undoubtedly reduce to below the economic levels indicated by the analysis at a time when their asset allocation is likely to be weighted to simple cash and fixed interest products.

The size thresholds discussed in Section 5 (Analysis and commentary) are more significant for funds in the drawdown phase when compared to those in the accumulation phase. They will generally be getting even smaller from year to year whereas the funds in accumulation phase would generally be getting bigger. SMSFs in drawdown phase will therefore tend to become less competitive to APRA funds over time.

This loss of competitiveness will be compounded by the ageing of the membership who will generally become less interested and able to manage their SMFS over time probably resulting in them seeking greater external assistance and needing to pay higher fees. At this stage, the complex and expensive compliance structures of an SMSF are unlikely to be justifiable.

We have indicated a competitive threshold of some \$200,000 for SMSFs in comparison to APRA regulated funds. For SMSFs in drawdown phase, the reaching of this threshold should lead to a review of operation of the fund and a decision on whether it would be in the members' interest to transfer to an APRA regulated fund. It may even be appropriate for the members to withdraw their entire balance and invest it outside the superannuation system because of the new, more generous, tax free thresholds for individual tax payers.

Another event that should lead to the review of the operation of a fund in the drawdown phase is the death of member that leaves only one member drawing an income.

3 September 2013

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Dear Ailsa

Costs of operating SMSFs - Revision of ATO Statistics

The Australian Taxation Office (ATO) released its *Self-managed super fund statistical report – June 2013* on 30 August 2013. You have asked us to consider whether the updated statistics presented in this report would alter the analysis or conclusions in our report *Costs of Operating SMSFs* of May 2013.

We have examined the ATO statistical report and note the following:

- The SMSF market continues to show strong growth in both assets and membership.
- The average assets per member and per fund have fallen slightly, but this change is not material.
- The structure of the market by size of SMSF shows a small increase in the proportion of SMSFs holding between \$200,000 and \$1 million, but this change is not material.
- The allocations of assets to different asset classes shows a small reduction in holdings of Cash and equivalents and a small increase in holdings of listed assets, but these changes are not material.

The market statistics presented in our report have been superseded by the latest ATO release, but none of the market parameters considered in our analysis have changed in any way that would invalidate that analysis or cause us to revise the analysis or the conclusions drawn from it.

Yours sincerely



Alun Stevens
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