IS AN SMSF RIGHT FOR YOU?

Investors from all different walks of life are looking towards SMSFs, but how do you know if you should be setting up a self-managed super fund? Jennifer Duke reports

Just as the reason for looking at different investments varies, not every property investor will suit a self-managed super fund (SMSF).

Enquiry levels about self-managing are jumping significantly across the board, and residential property is continually spoken about, but should you be doing this yourself?

YOUR AGE BRACKET

The first thing to consider is the age bracket within which you fall.

While Brad Callaughan, director of accountancy firm Callaughan Partners, says that "SMSFs are for all groups or ages", the approach for each of these differs.

50 OR OLDER

"The older age group wants safer assets," says managing director of Open Wealth Creation and co-writer of *My Four-Year-Old The Property Investor*, Matthew Lewison.

Residential property is typically seen by Australians as a 'lower risk' purchase, and therefore there is a big market for this, he says.

"What we're finding at the moment is that there are a large proportion of people in their 50s who are moving their funds out of the larger managed funds and into the self-managed super funds," Mr Lewison says.

The 'con', he explains, is that if you are older, typically you are aiming to use the super to generate income, and residential property doesn't necessarily provide the highest return – five per cent yields are typical.

Currently, the majority of SMSFs fall within this age bracket (55 to 64, according to the Australian Taxation Office), but this group's growth is slowing.

Mark Wilkinson, director of Wilkinson Superannuation and Financial Consulting, agrees that a majority of SMSF holders are older, "but there's an increasing number of young people setting up."

30-PLUS

Those in their thirties and forties are growing in the SMSF space, becoming increasingly interested in taking control and, typically, having more capital behind them.

"They want to have control over their investments," Mr Wilkinson says.

The current trend in this bracket is to invest as a couple, he says.

"Anybody in their early 30s who has 10-plus years of earning between $50,000 and $100,000 will have $50,000 to $100,000 in personal super," he explains.

"They're not thinking about their super in terms of 'It's money I can go and spend on a holiday'.

"They're not buying fixed assets as much as the older age group."

Investors in this bracket tend to be best positioned to make the most of an SMSF.

20-PLUS

With a long working road ahead, those in their twenties tend to have the most options when it comes to property alone.

"If you purchase well with a property that will double or triple in 30 years (being conservative), then starting with a $400,000 house will give you an asset worth $1,200,000 to retire on," says Mr Callaughan.

Despite this, those in the younger age groups typically look for higher returns and are willing to be a bit riskier, says Mr Lewison, "often including commercial development property and development syndicates".

Yet 20-somethings can also find themselves limited by the money they have acquired in their super.

MATERIAL MATTERS

INITIAL FUNDS NEEDED

There is no minimum amount specified to be eligible to start up an SMSF, and "everyone has a different opinion on the amount you should have before setting one up", says Mr Callaughan.

His recommendation is a minimum of $150,000 in funds, as well as an income total of $120,000.

"If it is husband and wife, it will be their joint amounts to add up to these totals. This amount would get you a $400,000 to $450,000 property," he says.

Graduate Property's founder and property consultant, Kathy Blahut, suggests that anyone with $100,000 or more in their fund may be in a position to invest and "maintain conservative gearing levels".

"The funds might come from rolling over a number of small balances belonging to one person, combining the joint accounts of a couple, or even a group of people with common purpose. Borrowing capacity does depend on contributions too, so that's why it's a "maybe" and not a guaranteed entry point," says Ms Blahut.

Mr Wilkinson notes a general figure of $200,000 – a figure previously indicated by the Australian Securities and Investments Commission (ASIC) as an appropriate entry point. This is to ensure the administration costs stick to around one per cent of the funds.

However, Mr Wilkinson points out, "The fact of the matter is, admin is getting cheaper across the board."

As a result, everything must be assessed on a case-by-case basis.

ONGOING COSTS

Investors will want to ensure they can cover all their ongoing expenses and they aren't left short.

These not only include property-related costs, such as management fees, repairs and maintenance that most investors will be familiar with, but also fund-related fees.

"The key is that if you have an accountant you trust, get a fixed price out of them first," Mr Lewison suggests.

It typically costs around $2,000 to set it up, then ongoing audit fees, and cash into the bank for ongoing expenses. "Depending on how many transactions are happening in the fund, the audit fee shouldn't be too difficult," he says.

SPENDING CONSIDERATIONS

"It is costly to set up an SMSF and to run one each year," says Mr Callaughan, "But the control you have over your money and the opportunity to make tax-free gain far outweigh the cost."

However, investors should remember that it is their responsibility to ensure the fund complies to avoid the risk of being taxed at the highest rate.

Those without these balances, incomes or equity are possibly better off sticking with their existing retail fund, especially if the rent will not cover the ongoing expenses. However, "there is merit in getting qualified advice – even for small balance holders – on how to maximise their superannuation," Ms Blahut says.

SKILLS REQUIRED

Property investors are generally well aware of the strategies around the selection of the dwelling and the location. When buying a property in an SMSF this still applies, as well as the need for the usual due diligence.

PERSONAL TRAITS

Investors must ensure they understand the concept of 'self-managed' and all the responsibilities that term entails.

The ability to be confident in making investment choices and decisions is crucial, says Mr Callaughan. "If you are not confident and do not understand the market or do not want to pay for good advice, retail funds would be the way to go."

Mr Wilkinson explains that some people have been put off in the past when they see what is required and he has advised them against setting one up.

He recently spoke to a widow whose husband had previously managed the investments. She told him that she was considering an SMSF with the payout and he advised against it due to her lack of experience.

At the other end of the spectrum he has also seen people "in the corporate world who can be so busy they don't have time to manage their own fund".

NECESSARY KNOWLEDGE

When it comes to knowledge, investors should never scrimp. "Form a relationship with a great accountant and financial planner – people you can actually sit down with, have coffee and discuss your investments," Mr Callaughan says.

Mr Lewison explains that this active approach would stop a number of 'rookie' errors.

"Whether it goes hand in hand with the nature of the individuals who set them up, in that they want control, certainly those who see success get advice when they need it," he says.

"If you're not an expert you will need to appoint an adviser who can be your coach." ■

SMSF MEMBER AGE RANGES

Source: Australian Taxation Office to June 2012