Is your SMSF being ripped off?

InvestSMART

Funds with low balances are paying more.

Summary: SMSFs with very low balances are paying higher costs than APRA funds.

Key take-out: Trustees need to consider the costs versus the benefits of operating a fund.

If your self-managed superannuation fund has a balance below $1 million, be aware that you are most likely paying fees and costs to your administrator that are significantly higher than those applied by APRA-regulated funds.

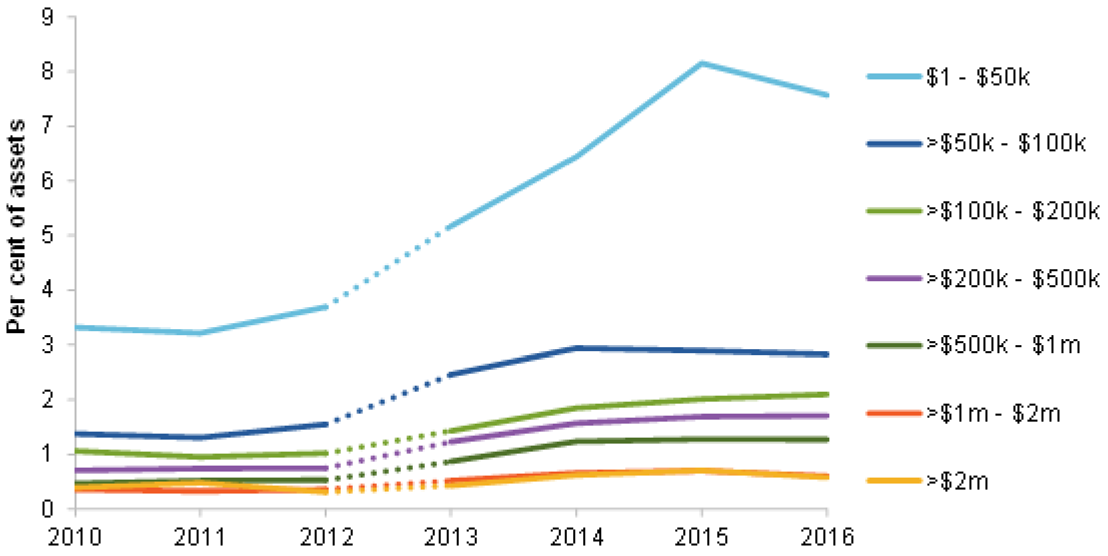
That's just one of the stark messages from the Productivity Commission in its detailed assessment into the efficiency and competitiveness of Australia's $2.6 billion superannuation industry.

And somewhat concerning is that around 86 per cent of SMSFs (just short of 510,000 funds) have balances below $1 million, and funds with balances below $200,000 are paying anywhere from 5 per cent to 8 per cent of their total balance annually in administration and operating costs.

The Productivity Commission notes that reported costs for SMSFs have increased over recent years, particularly for small funds with low balances below $100,000, which overall have achieved poor net returns.

Figure 3.23 **Costs have risen, particularly for low balance SMSFs[a,b]**

Administration and operating costs, new establishments only, 2010–2016



Source	Unpublished ATO data and PC estimates.
Coverage	The ATO data represent all SMSFs in the system.

[a] Administration and operating costs are significantly higher that investment costs in general, and have also increased by more over time (across balance bands). [b] The dotted lines represent a break in the series reflecting that the ATO revised its collection methodology in 2013 to collect better information on non-deductible expenses.

Australians pay over $30 billion a year in fees on their super (excluding insurance premiums). For the average SMSF member, total costs rose from around $5,100 in 2013 to around $7,300 in 2016. This reflects growth in both investment and administration costs for SMSFs.

“Fees can have a substantial impact on members — for example, an increase in fees of just 0.5 per cent can cost a typical full-time worker about 12 per cent of their balance (or $100,000) by the time they reach retirement,” the Productivity Commission says.

While the SMSF segment has broadly tracked the long-term investment performance of the APRA-regulated segment on average, many smaller SMSFs have delivered materially lower returns than larger SMSFs.

The difference between returns from the smallest SMSFs (with less than $50,000) and the largest (with over $2 million) exceeds 10 percentage points a year. Over the decade to 2016, both APRA-regulated funds and SMSFs delivered net returns of about 5.6 per cent a year (although smaller SMSFs delivered significantly less).

SMSF Association Chief Executive John Maroney says the report has a clear message to SMSFs about the negative impact of fees and costs on their retirement incomes, and as such "it's a critical issue demanding the close attention of trustees and their advisers."

"With the Commission finding that lower balance SMSFs have higher costs than their counterparts, it is important that trustees understand and manage their SMSF in the most cost-effective manner.

"In particular, for SMSF trustees starting off with a lower balance, it is essential that they have a plan to achieve greater scale and cost-effectiveness as quickly as possible.

"To achieve this goal, the Association strongly recommends that trustees receive specialised SMSF advice from accredited and appropriately qualified professionals to ensure that their fund is fit for purpose and achieves the best outcomes over the long-term."

The most recent Tax Office annual SMSF report shows that of SMSFs established in 2012, 51 per cent reported total assets of $1 to $200,000. Comparatively, this asset range made up only 20 per cent of funds still active in 2016.

This shows that funds that start with lower balances are generally achieving scale quite quickly. The Commission also stressed that "the number of new SMSFs with very low balances (under $100,000) has fallen from 35 per cent of new establishments in 2010 to 23 per cent in 2016", another positive sign for the sector.

Meanwhile, Maroney says the report's questioning of the quality of advice providers to superannuation fund members reinforces the association's long-held view that SMSF advice should be provided by specialist professionals who have attained high standards of education and accreditation.

"When SMSFs are recommended, it should be done by specialised SMSF advisers who provide quality and justified advice in the best interests of their clients."