



YOUR INDUSTRY TAKEAWAYS:

## Cost of Operating SMSFs 2020

SMSF ASSOCIATION





## Background

In the context of ongoing public debate regarding the appropriate minimum size for a Self Managed Superannuation Fund (SMSF) and ASIC advice regarding fees paid by SMSF Trustees, the SMSF Association has retained Rice Warner to update its report prepared for the Australian Securities and Investments Commission (ASIC) in May 2013, *Costs of Operating SMSFs*<sup>1</sup>

The research provides insights into the true costs of running an SMSF and allows industry to compare appropriate estimates of fees for differing SMSF balances with APRA regulated funds.

The analysis for the 2013 report was based on the statutory costs and fee structures from the marketing material of, and interviews with, several suppliers of SMSF administration services, accountants, and auditors. This analysis was therefore based on potential fees.

For this report, Rice Warner were also given access to anonymised expense, cash flow and balance information for approximately 100,000 SMSFs. This enabled the research to be based on actual costs incurred.

SMSFs have been segmented 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 this segmentation, comparable APRA regulated products were considered, and fees have been modelled to show at what size a cost saving can be made via an SMSF. These fees include investment and administration components.

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

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.

<sup>1</sup> As per report 'Cost of Operating' SMSFs <https://download.asic.gov.au/media/1336058/cp216-RiceWarner-cost-of-operating-smsfs.pdf>

## What does the research tell us?

Comparing the fees of SMSF service providers and the fees of Industry and Retail Funds, we can observe the following:

### SMSFs with less than \$100,000

These SMSFs 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 more affordable than only the most expensive APRA regulated funds.
- SMSFs of this size would only be appropriate if they are expected to grow to a competitive size within a reasonable time. The analysis of these small funds over time, see Section 2.4 of the full Report (Growth and termination of funds), shows that the majority of these funds do, in fact, grow.

This assessment is consistent with the 2013 assessment.

### SMSFs with \$100,000 to \$150,000

These SMSFs are competitive with APRA regulated funds, provided the Trustees use one of the cheaper service providers, or undertake some of the administration themselves:

- The Low and Mid fees for SMSFs for Compliance Administration and for Full Administration are in the ranges of fees for APRA regulated funds. It would therefore be possible for members with balances of these sizes to obtain a modest reduction in cost by moving to an SMSF provided the Trustees avoid the more expensive SMSF providers.

This assessment differs from the 2013 assessment which found that only the cheapest Compliance Administration fees were lower than the most expensive Retail fund fees. Industry funds and the then new personal superannuation products were a cheaper alternative.



### **SMSFs with \$200,000 to \$500,000**

These SMSFs are competitive with both Industry and Retail funds, even for full administration:

- The Low fees for SMSFs for Compliance Administration are lower than the fees for Industry and Retail funds.
- Members moving to SMSFs from Industry or Retail funds, with balances at this level, could obtain equivalent or cheaper fees.
- SMSFs with \$250,000, where the Trustee undertakes some of the administration or chooses one of the cheaper full services, become the cheapest alternative.
- SMSFs requiring full services can be competitive with APRA regulated funds provided they use a lower cost supplier and their balance is at least \$150,000 and can be the cheapest alternative when their balance is at least \$200,000

This assessment differs from the 2013 assessment which found that SMSFs of this size were only competitive provided the Trustees carried out the broader investment administration functions as full administration fees were not competitive.

### **SMSFs with \$500,000 or more**

These SMSFs are generally the cheapest alternative regardless of the options taken:

- For SMSFs with only accumulation accounts, the fees at all levels are lower than the lowest fees of APRA regulated funds.
- For SMSFs with pension accounts, only the highest full administration fees exceed the lowest fees of APRA regulated funds.

This assessment differs from the 2013 assessment which found that SMSFs of this size were only competitive (i.e. within the range of fees for APRA regulated funds) on a full-service basis and only cheapest if the Trustees undertook some or all of the administration functions.

## Three things you might not have known:

1. The comparisons for SMSFs paying pensions are very similar to those for accumulation funds.
2. The real benefit of an SMSF is when it achieves scale in balance, typically this occurs when members pool funds. (See table 1)
3. SMSFs with multiple members and a combination of accumulation and pension accounts, are competitive from balances as low as \$100,000 and can be the cheapest alternative from balances of \$150,000, provided the Trustees undertake some or all the administration functions.

**Table 1:**

Combined Balance	SMSF Compliance Admin Mid-range (2 members)	APRA Industry Fund Low-range (2 members)
\$50,000	\$1,689	\$503
\$100,000	\$1,690	\$863
\$150,000	\$1,691	\$1,216
\$200,000	\$1,693	\$1,566
\$250,000	\$1,694	\$1,942
\$300,000	\$1,696	\$2,301
\$400,000	\$1,699	\$3,013
\$500,000	\$1,703	\$3,725

## Combined Balance Comparison







SMSFs with \$200,000  
or more are competitive with  
both Industry and Retail funds  
even for full administration



## Fees v costs

Comparing the actual costs paid by SMSFs and the fees of Industry and Retail Funds, we can observe the following:

- The Low fees being paid are cheaper than fee schedules indicate.
- These Low fees are cheaper than the APRA regulated alternatives for balances of \$100,000 and above.
- Median fees for SMSFs without direct property are competitive for balances of \$200,000 and above.
- Median and High fees for SMSFs with direct property are higher than the highest fees for APRA regulated funds for all balance sizes.

In recent times, the reductions in fees for SMSFs and Retail Funds and the increase in fees for Industry Funds, have changed the relative competitiveness of SMSFs in comparison to the APRA regulated funds. It is also clear that fees considerably lower than those on pricing schedules are being charged to some SMSFs which means that they are competitive even at small sizes.

This research now clearly highlights that SMSFs with a low complexity, can begin to become cost-effective at \$100,000. This is a significant departure from what many had believed to be the case. For simple funds, \$200,000 is a point when SMSFs can become cheaper in some situations.

These comparison tables may be useful not only for advisers and regulators in understanding the market, but also for potential and current SMSF trustees. Grasping the ranges they fall into based on the level of complexity and compliance needs they have, should open the door for many individuals to explore taking more control of their own superannuation. It also enables individuals to compare their own fees.

It should also be noted that whilst it is reasonable to take the 5th Percentile and Median fees as indicative of regular annual costs incurred by SMSFs, it is not sound to take the 95th Percentile fees as indicative of regular annual costs. This is because they are biased by significant establishment costs for complex investments, large balances, and direct property.

Additionally, it is important to remember that in table 42, the SMSF fees include the cost of Advice. The fees for APRA regulated funds to which they are being compared do not.



**Table 12 - Comparison of annual costs of SMSFs (\$) - Accumulation accounts**

Balance	SMSF Compliance Admin			SMSF Full Admin			
	Low	Mid	High	Low	Mid	High	
\$50,000	\$1,189	\$1,689	\$2,453	\$1,514	\$2,134	\$3,074	SMSF Fee above range for Retail and Industry funds
\$100,000	\$1,190	\$1,690	\$2,454	\$1,515	\$2,135	\$3,075	
\$150,000	\$1,191	\$1,691	\$2,455	\$1,516	\$2,136	\$3,076	SMSF Fee within range for Retail and Industry funds
\$200,000	\$1,193	\$1,693	\$2,457	\$1,518	\$2,138	\$3,078	
\$250,000	\$1,194	\$1,694	\$2,458	\$1,519	\$2,139	\$3,079	SMSF Fee below range for Retail and Industry funds
\$300,000	\$1,196	\$1,696	\$2,460	\$1,521	\$2,141	\$3,081	
\$400,000	\$1,199	\$1,699	\$2,463	\$1,524	\$2,144	\$3,084	
\$500,000	\$1,203	\$1,703	\$2,467	\$1,528	\$2,148	\$3,088	

**Table 42 - 2019 Total fees incurred by SMSFs with and without direct property**

Percentile	All Funds			Funds with no direct property			Funds with direct property		
	5th	50th	95th	5th	50th	95th	5th	50th	95th
<b>Balance</b>									
\$50,000	532	2,002	6,478	532	1,958	5,755	1,068	9,352	23,020
\$100,000	607	2,298	13,098	592	2,220	6,337	863	9,003	29,007
\$150,000	679	2,600	15,881	611	2,402	7,747	1,302	9,683	24,758
\$200,000	848	2,898	17,638	684	2,603	9,002	1,414	10,398	25,204
\$250,000	890	2,959	18,548	741	2,720	10,170	1,362	10,198	25,426
\$300,000	971	3,140	20,002	785	2,861	11,290	1,487	10,044	27,878
\$400,000	1,082	3,235	20,428	902	3,034	13,387	1,538	9,887	27,615
\$500,000	1,183	3,339	22,468	1,029	3,207	15,908	1,480	9,969	29,799

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

## What does this mean for SMSF advice?

ASIC's information sheet (INFO 206) provides guidance for Australian financial services (AFS) licensees (including limited AFS licensees) and their representatives who provide personal advice to retail clients about SMSFs.

Recently, this has been influential in restricting the advice provided to many SMSFs below \$500,000.

The guidance explains:

- the relevant conduct and disclosure obligations
- the need for advice on the cost-effectiveness of an SMSF – on average, SMSFs with balances below \$500,000 have lower returns after expenses and tax, than funds regulated by Australian Prudential Regulation Authority (APRA) – Based on The Productivity Commission in its report Superannuation: Assessing efficiency and competitiveness
- the need for advice on the costs of setting up, operating and winding up an SMSF
- the need for advice on the continued suitability of an SMSF for the client.

ASIC states "An important consideration is whether the likely balance of the SMSF makes it cost-effective for the client. If it is not cost-effective, it is very unlikely to be in the client's best interests.

Where advice is provided to establish an SMSF with a low balance (i.e. below \$500,000), we would expect the advice to clearly set out:

- the circumstances that influence the adviser to believe the client is likely to end up in a better position, despite the SMSF having a low starting balance
- consideration of whether the SMSF's intended investment strategy is appropriate and viable
- the reasons why setting up and operating an SMSF is in the best interests of the client."

With regards to the advice on the costs of setting up, operating and winding up an SMSF, ASIC state "the matters that should be discussed and disclosed are:

- the costs that are expected to be incurred in establishing, operating and winding up an SMSF – in particular, which costs are unavoidable, as well as costs that may vary depending on how much of the SMSF's administration the trustees are intending to undertake
- how the average annual operating costs of an SMSF compare with the annual administration costs of the client's current superannuation fund, or other APRA regulated superannuation funds
- the cost of having professional service providers do some of the ongoing administration and management tasks for the SMSF."

This research provides the most up to date evidence on the general cost-effective balance of an SMSF.

As an adviser, it is important to detail the actual expected costs involved in establishing, operating, and winding up an SMSF. Hopefully, this research demonstrates the fact that there are many options for potential SMSF trustees to establish a cost-effective SMSF with a balance of \$200,000 or more.

Notwithstanding current ASIC guidance, AFS licensees should feel more comfortable that SMSFs between \$200,000 and \$500,000 can be recommended in the best interests of clients. The latest Rice Warner research is based on similar methodology (while including more recent and extensive data) to that used in their report for ASIC in 2013, before the original INFO 206 guidance was issued with a \$200,000 reference point.

It is important to recognise that when an adviser is assessing the minimum viable or cost-effective size of an SMSF, there are also several other factors to consider. These include:

- The likely pattern of future contributions (nil once all members are fully 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).

## Case Study (Based on Rice Warner research)

James and Jenny are a couple in their late thirties. James has \$50,000 in his APRA regulated superannuation account. Jenny has \$150,000 in her APRA regulated account. They are considering a combined SMSF with a balance of \$200,000.

Currently, James' Retail superannuation fund is in the mid-tier of fees being charged (\$572 a year) and Jenny is in an industry superannuation fund also in the mid-tier of fees being charged (\$1,668 per year).

James and Jenny will be engaging an Accountant to undertake the compliance of their SMSF. They will collect and provide documents to their Accountant and therefore do not require an administration service. They will be engaging an Accountant (who charges mid-tier fees) because they have an on-going and strong relationship with them.

This should cost James and Jenny around \$1700 per year, which compared to their current superannuation funds, represents a saving of around \$540 per year.

James and Jenny also expect to make a significant non-concessional contribution in the coming years, and this will further improve the cost-effectiveness of their SMSF.

James and Jenny's adviser is satisfied they understand the risks and the roles and responsibilities of being an SMSF trustee and have the time and desire to be an SMSF trustee.

James and Jenny's adviser is also confident that their intended investment strategy is appropriate and viable, and they are likely to end up in a better position than remaining in separate funds. James and Jenny's adviser is satisfied that setting up an SMSF is in their best interests.

James and Jenny also find the establishment of an SMSF with a balance of \$200,000 could result in a significant CGT (Capital Gains Tax) cost saving by switching to an SMSF earlier in their careers. In fact, when individuals wait until their balances are much larger, establishing an SMSF at that point can result in much higher CGT rollover costs. This could be an issue for some individuals who delay starting an SMSF because it may not be cost-effective, at least initially, to start an SMSF.

It is also important to remember that cost and return are not the only factors that motivate people to establish a SMSF. Control, investment choice, tax and estate planning and transparency are motivators that cannot always be measured by a simple return and cost calculation.



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