LIME SUPER
THE SELF MANAGED SUPER SPECIALISTS

5 REASONS SMART PEOPLE ARE SETTING UP SELF MANAGED SUPER FUNDS

Congratulations!
By reading this article you have taken the first step towards owning your own Self Managed Superannuation Fund (SMSF). There are lots of good reasons why smart people set up their own SMSF's. The most common reasons are:

1. Investment Control

No doubt you want control over how your money is invested. In a public offer fund (eg AMP, Colonial, MLC, BT, Australian Super) there are a group of people called trustees who decide how your money will be invested. They may provide you with options such as a shares option or a balanced option. But within those options you have no control. So if the Fund Manager decided to buy Qantas shares when the price was $5.60 in 2007 and you didn't think Qantas was a good investment, bad luck! In fact you probably don't get the transparency to tell you what shares you own. The satisfaction of knowing you were right doesn't make up for all the money you would have lost. The shares are now trading at around $1.50.

SMSF's give you the ability to choose what assets to buy, how much to pay, when to buy them, and when to sell them.

2. Investment Flexibility

SMSF's give you the opportunity to buy a broader range of assets than public offer funds. For example you can buy property, direct shares, exchange traded funds, commodities, artworks, wine and vintage cars – not that we would recommend all of these. You can even borrow money to buy property in your SMSF. There are restrictions of course so make sure the assets you purchase are in line with the SMSF rules.

3. Reduced Administration Costs

The cost of public offer funds tends to increase according to the assets you have. If the cost is say 1.5% p.a., then an investor with $50,000 will pay $750 p.a. to belong to the fund, whereas an investor with $500,000 will pay $7,500 p.a. to belong to the same fund. SMSF's, in contrast, tend to have fixed costs. So the more you have, the more economical SMSF's becomes. Once you have over about $200,000 in Super it may be cheaper to operate your own SMSF than to remain in your existing Fund. You can pool your money with your spouse (or other relatives) to reach this amount. What's more, as your balance grows due to investment earnings and contributions the cost of running your SMSF won't increase, unlike most Super Funds.

Don't forget – if you have a public offer you may be paying more in fees than you realise. There are usually multiple layers of fees and not all of them are disclosed in your statements.

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4. Tax Benefits

There are important taxation benefits available to members of SMSF's.
Usually if you are in a public offer fund and you move from the accumulation to the pension phase (ie around age 60), capital gains tax equivalent to 10% of unrealised gains will have been deducted from your account. In an SMSF, no tax will be payable if you then sell the assets once you are in the pension phase. This can amount to a significant tax saving.

SMSF's also give you the opportunity to take your capital gains tax position into account when deciding which assets to sell. In doing so you can reduce the amount of tax you pay. A public offer fund can't do this because they have thousands of other people to look after too.

5. Fixed income investment returns

Retail diversified funds typically invest about 30% of their assets into bonds. At present, government bonds are returning 3.0-3.5% p.a., depending on when they mature. In contrast, term deposits are returning 4.2-4.5% p.a. So SMSF's can earn an additional return of 1% p.a. on the fixed income part of the portfolio, or 0.3% when averaged across the entire fund. For a fund of $500,000, this equates to $1,500 p.a.

So there you have it – some compelling reasons to set up your own Fund. If you are considering joining nearly 1 million Australians by having your own SMSF then please call us at Lime Super on 1300 546 300 (1300 LIME 00). We would love to hear about your situation and discuss how you can work towards a comfortable retirement. The first meeting is on us.