

Reforms to favour self managed super

PROPOSED changes to Australia's superannuation framework could be the catalyst to give self managed super funds (SMSF) a boost.

It is expected that the increased contributions and renewed focus on super will help balances to increase at a faster rate and push investors closer to the critical mass needed to justify a SMSF quicker.

According to Quill Group director Peter Kirk, a common figure seen as viable to kick off a fund is around \$200,000. A husband and wife with \$100,000 each would fit into this category.

"We need to remember that superannuation is a structure, not an investment class of its own," says Kirk.

"Superannuation enjoys the lowest tax rate of any entity structure in Australia and thanks to Simple Super regime, persons over 60 years of age can access their benefits tax free."

The Federal Government's Cooper Review into Superannuation which is due for completion in June, could result in employer contributions increasing from 9 per cent to 12 per cent.

Despite super investments taking a battering over the last two years, Kirk says there are still opportunities. More than \$1 trillion is now invested in the superannuation system in Australia, 30 per cent of which is held in SMSFs.

He says the benefits of a SMSF can be broken up into four key areas — greater control, investment choice, costs and tax efficiency.

"Control of the underlying investments generally seems to be at the top of the list for most people. In other words, a SMSF

allows you to own almost any investment asset that you might otherwise hold directly, except that the SMSF gives you major tax and asset protection advantages," he says.

However, ATO figures show that 14 per cent of SMSFs established in the last five years have been closed. SMSFs are not suitable for everyone and Kirk reiterates the need to be aware of both the risks and benefits.

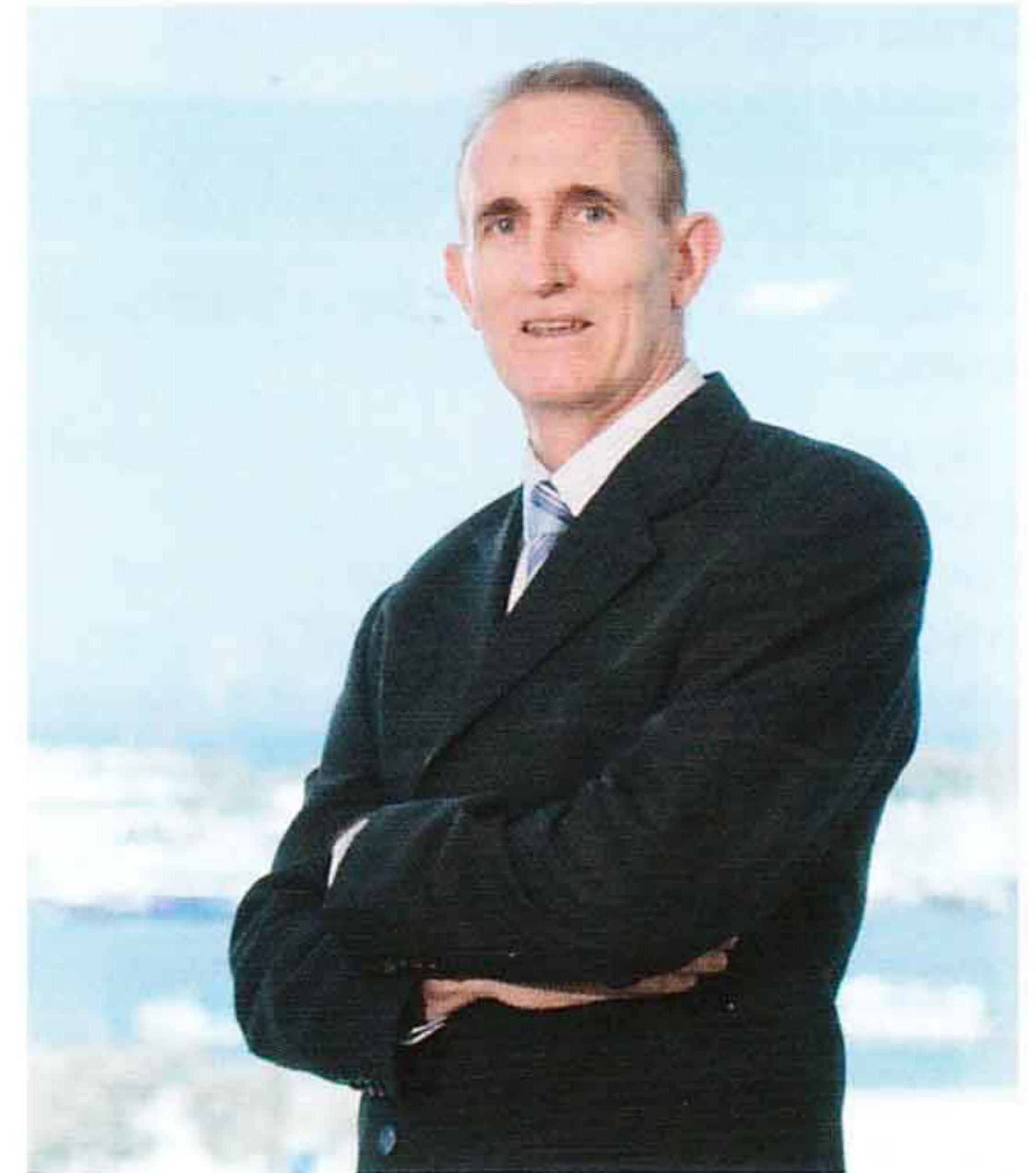
Disadvantages include administration, responsibility and cost and as a guide it is generally considered that a balance of less than \$200,000 is not cost-effective. Penalties apply to trustees who are found guilty of mismanaging a SMSF.

Kirk says recent changes to the rules for borrowing within superannuation have led to a sharp increase in enquiry regarding the possibility of members buying real estate, such as their business premises within a SMSF.

"In the right circumstances this can be a very worthwhile strategy, however, extreme care needs to be taken to ensure the right structures are set up and the SMSF trust deed allows for this," he says.

"It's easy to see why SMSFs have become an increasingly important part of the superannuation landscape. The number of SMSFs in existence is now greater than 400,000 having grown in number on a dramatic scale since they came into vogue in the 1990s.

"SMSFs offer significant advantages, such as having direct control over investments, greater flexibility, especially with respect to tax planning and retirement benefit options and the wonderful ancillary advantages of estate planning and asset protection benefits.



Super expert Peter Kirk

"As more and more people take stock of these benefits, the number of SMSFs will only continue to grow. In an environment that actively encourages saving for self-funded retirement, investment flexibility and choice of super, a SMSF is an obvious choice for many people."

But data released by independent researcher SuperRatings shows that Australians are deserting their superannuation funds in droves.

People are investing their savings elsewhere as a result of lower confidence from the GFC and the government's ongoing rule tinkering.

SuperRatings data shows personal contributions to super - investments in super outside of employer contributions - have plunged by more than 55 per cent over the past two financial years.