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HOW MUCH DO YOU NEED TO SET UP A SELF MANAGED SUPERANNUATION FUND?

This is a common question for anyone considering setting up their own superannuation fund.

It is important to note that there is no mandated minimum amount required to establish a Self-Managed Superannuation Fund ("SMSF"). However, the Australian Securities and Investment Commission ("ASIC") has issued guidelines to financial advisers on this matter which includes the following points:

- It is important to consider if a client's likely balance in a SMSF makes it "cost-effective". If it is not cost-effective, a SMSF is unlikely to be in the clients best interest,
- Establishing a SMSF with a balance of less than $200,000 is not likely to be cost-effective – this is based on a 2013 study by Rice Warner which indicated that the average cost of a superannuation account in Australia was just over 1%,
- There may be circumstances where starting a fund with less than $200,000 would be in the clients best interest – for example, where the trustees are prepared to take on as much of the administrative work as possible or when members plan to roll in additional funds in the short term from say another fund or sale of a business.

All savings/investment plans have to start somewhere. Costs are not the only consideration as investment returns are likely to have a much greater effect on fund balances over time. The particular circumstances and plans of the individual/s concerned will be critical to the decision to set up a SMSF and are a far more important consideration than any arbitrary dollar balance.

Take for example the following cases:

1. Bill has operated a very successful small business for many years and has considerable cash reserves but only a modest superannuation balance of $60,000. After taking appropriate advice and undertaking some financial planning, he decides to establish an SMSF. He rolls his existing $60,000 into the SMSF to start it off and then has a plan to make maximum contributions to the fund over the following years i.e. currently $125,000 per annum. He has very particular views on how his retirement savings should be invested. Even though Bill would not make the $200,000 "threshold" for at least a couple of years, the establishment of an SMSF is clearly justifiable based on Bill's requirements and future plans.
2. Ann has operated a beef cattle business with her husband for more than 30 years and tragically lost her husband in a farming accident. They have no superannuation and after taking advice, Ann decides to establish a SMSF with an initial small cash amount and then prepare the farm for sale with the aim of making a maximum Capital Gains Tax contribution from the sale proceeds. The sale is expected to be at least a couple of years away but Ann wants to get everything in place while she has the help of her only daughter who is due to go

back to her overseas employment in the next few months. Again, not meeting the initial $200,000 threshold can be seen as irrelevant to Ann's longer term interests.

3. Ben and Josie have just been given some of the family farmland to start their own sheep and cattle business. In conjunction with their accountant and financial planner, they have mapped out a medium-term financial plan which includes significant superannuation contributions. They are likely to have variable incomes but aim to be consistent with their contributions and to make significant additional contributions in the better years. They are keen to be involved in the running of the fund and take a close interest in the performance of their investments.

Whilst there is no hard and fast rule for a minimum amount required to justify setting up a SMSF, it is important that the personal circumstances and plans of the individuals concerned be carefully considered and professional advice sought from experienced and licensed professionals.

For any adviser to recommend the establishment of a SMSF to a client, it should be clear that such an action is demonstrably in the client's best interest. This applies regardless of the amount of the planned initial investment in the fund.

BOB LOCKE – CHARTERED ACCOUNTANT & SMSF SPECIALIST

Bob's career spans more than 40 years in accounting, taxation and financial services. His specialty is self-managed superannuation funds and the development and management of financial accounting software.

Bob has experience as a partner in a large accounting firm, as administrator of a large corporate superannuation fund with more than 1000 members and as owner/founder of Practical Systems.