

## SMSFs vs. POFs

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**THERE are a number of choices in how you prepare for retirement. Which type of superannuation fund is best depends on your needs and the amount of direct involvement that you want. Peter Townsend, principal of Townsends Business & Corporate Lawyers, explores the pros and cons of your major superannuation decision.**

Public offer funds are managed and administered by a professional superannuation company. Industry super funds are managed and administered by a manager associated with a trade union or industrial body. There are also self-managed super funds that are small funds (less than five members) managed by the members themselves as trustees of the fund, and even small APRA funds, known as SAFs, where a professional trustee is used instead.

It needs to be remembered when discussing superannuation that it is simply a legal structure. In deciding on which structure suits you best, it might be worth reviewing the pros and cons of the superannuation vehicles before seeking professional advice.

### The pros and cons of an SMSF

#### Advantages

- Members have direct control over the choice of investment;
- Members can assess not only likely returns of investments but also commissions and fees etc;
- It complements the small business structure;
- There are greater investment options;
- Prudential requirements are a little less stringent as all members are trustees;
- There is greater flexibility in tailoring pensions;
- There is greater flexibility in estate planning;
- The ability to transfer personally owned listed shares into the fund; and
- The ability to own the members' business premises in the fund.

#### Disadvantages

- The time and skills required to self-manage,
- Detailed compliance obligations,
- Detailed investment restrictions,
- Serious penalties for trustee breaches,
- Greater scrutiny by the Australian Taxation Office,
- No access to the Superannuation Complaints Tribunal if things go pear shaped, and
- A disproportionate cost for smaller funds.

Among the main criticisms of SMSFs is that there is potential for a high level of non-compliance by SMSF trustees who don't understand their responsibilities in managing their own fund – trustees should endeavour to understand their obligations.

In addition, there is a generalised view that SMSF costs are disproportionately high. At an average 1.4% of assets under management (as opposed to 1% for POFs), commentators label SMSF costs as expensive, particularly for funds with small amounts.

However, there is some anecdotal evidence that many SMSFs have outperformed POFs over the past year by using a more flexible investment strategy, favouring higher cash levels than many POFs.

Better small fund returns and the ability to control the investment strategy can counter-balance the cost argument. Of course, the rule is always that the lower the amount in the fund the more that expenses need to be minimised.

Some advisers have noticed a trend among their clients that SMSF members tend to accumulate savings faster than POF members, as they experience a higher level of engagement with the process of saving for their retirement.

## Comparison of fees – SMSFs vs POFs

The table below compares some of the types of fees or expenses that are often charged or incurred by POFs and SMSFs.

<b>POF</b>	<b>SMSF</b>
Establishment fee	Set-up costs – legal, accounting, regulatory
Contribution fee	No contribution fee
Withdrawal fee	No withdrawal fee
Termination fee	Wind-up costs – legal, accounting, regulatory
Administration fee	Annual charges by administrator or accountant
Management fee	No management fee
Small account balance fee	No small account balance fee
No audit fee	Audit fee
No deed update expense	Deed update expense
Investment costs	Investment costs

There is a lot to consider when choosing which way to invest for retirement. It is important to discuss with a professional adviser how you choose to manage your superannuation and which structure you should utilise.

### Where to find out more

For more information from Peter Townsend or **TOWNSENDS BUSINESS & CORPORATE LAWYERS** visit [www.townsendslaw.com.au](http://www.townsendslaw.com.au)