SMSF Minimum Balance Myth

There is a common myth that you need a minimum balance before you can consider setting up an SMSF.

The decision to set up your own self-managed superannuation fund is not a simple one. There are many factors that need to be considered. One of those factors is the minimum balance required in order to set up an SMSF. **Is there an actual minimum balance required?** While the media often throw around figures between $500,000 and $1,000,000 as being the minimum amount required to establish a SMSF, there is no actual minimum balance stipulated in the super law or by the regulatory body.

The Australian Securities and Investments Commission (ASIC) does however use $200,000 as a suggested guide for a SMSF to be cost effective.

Determining whether an SMSF is right for you will depend more on the rate of returns you can achieve after the deduction of operating costs, as well as your skill and ability to manage your assets effectively, rather than the amount of start-up capital you have. Therefore, it is important to understand the various costs associated with managing an SMSF.

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Costs Associated with running an SMSF
There are many costs involved in setting up, operating and winding up an SMSF that should be considered when deciding whether to establish an SMSF with a low super balance. An important consideration is whether the balance of the SMSF makes it cost effective for the client.

- There are unavoidable SMSF costs – SMSF establishment fees, trust deed establishment fees, Annual SMSF Supervisory Levy, accounting and auditing fees.

- There are also costs depending on the structure and investments held in the SMSF this includes costs associated with a trustee company, adviser fees, investment fees etc.

The ongoing costs of running an SMSF will vary depending on the complexity of the fund's investment activities. SMSFs may not be cost effective when it comes to low superannuation balances but once again this depends on the structure and the investment activities in the fund.

How do SMSF costs with a low super balance compare to an APRA Regulated Fund?

Comparing costs with a low balance in an SMSF against an APRA Regulated Fund is difficult as the nature of the costs in an SMSF are different to those in an APRA Regulated Fund.

It must be mentioned that SMSF fees are readily identifiable as the member is the one paying the bills whereas with an APRA Regulated Fund, the member might not be aware of certain fees and costs as some of them are indirect and "hidden" amongst the investment returns to the members.

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Investment Strategy and Objectives
Low balance aside, it really depends on the objectives of the fund and whether a small balance can sustain these objectives.

Clients who wish to invest in residential real estate, commercial property etc can't generally achieve this in an APRA Regulated Fund.

If the strategy you wish to undertake with your superannuation assets can only be achieved via an SMSF then having made that decision, the only relevant consideration is whether you have enough capital to undertake the desired strategy. Therefore, there is no "minimum balance" that predetermines the feasibility of an SMSF.

ASIC have set up guidelines to help prevent financial advisers from encouraging people to establish an SMSF when it is not in their best interest.

Where advice is provided to establish an SMSF with a low balance, ASIC 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.

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ESTATE PLANNING

Estate planning issues may be a reason to establish a SMSF with a low balance instead of having the amount in an ARPA fund. In the case of blended families, a SMSF may prove to be more appropriate than an APRA fund due to the ability to have non-lapsing binding nominations in place and to have control over who to appoint as the trustee of the fund. This can alleviate the possibility of legal disputes between any potential beneficiaries.

Most APRA Regulated Funds only offer members the ability to make binding death benefit nominations (BDBN) with a single tier level of nomination, while in a SMSF the member can have a nomination with multiple tiers.

In a SMSF it is possible for death benefits to be paid as a pension to a death benefits dependant rather than as a lump sum, which means the fund doesn't need to be wound up. The fund's investment portfolio can remain intact and the lifespan of the SMSF extended – a benefit not always available with an APRA Regulated Fund. Arrangements can also be made to pay a SMSF balance to a specific beneficiary as a pension without giving them access to the capital. However, it is important to make sure the Trust Deed enables the proposed strategy.

In conclusion

In summary, if you think you need an SMSF to achieve your objectives with your superannuation, seek professional advice to determine if it is, in fact, necessary for those objectives.

Remember that you are setting up a SMSF for the long haul. It is not so much your current super balance that should determine your answer to this question but your future expectations of it. The reality is that many people start off in small SMSFs and generally achieve scale over time.