Why I wound up my SMSF

Theo Marinis explains why he decided to wind up his SMSF in 2002, and the reasons that drove his decision.

Self-Managed Super Funds might have been made for nerds like me – a CPA, CFP, self-titled 'Financial Strategist' with an economics degree, who has also done time at the ATO and the ISC.

According to superguide.com.au* there are 600,000 SMSFs in Australia, serving 1.23 million members holding $750 billion in superannuation assets. This represents just over a quarter of the $2.8 trillion invested in super. The report also cites a 20 per cent increase in SMSF wind-ups in the financial year 2017/18, however, in 2019 overall, the market is growing.

I wound up our family SMSF in 2002 and transferred the balance of $200,000 to a retail super administration platform. (That balance has since grown and benefited from several subsequent platform changes with the achievement of lower costs).

Two things drove my decision – the first of these was cost.

When I took into account the opportunity cost of my time, the expense of running our SMSF was exorbitant. I have hundreds of clients who pay our firm $330 per hour for financial strategy development and implementation – and I was spending an average of two hours per week, 104 hours per year (or $34,320 per annum worth of billable time) on self-managing it. It had become an obsession.

I also decided I didn't want to confuse my hobbies (football – soccer & Aussie Rules – plus motorsports) with my day job.

In addition to the huge amount of potential income lost, there was the accounting cost. I estimated that this was costing my wife Julie and myself around $2,000 per year to remain compliant, despite all the leg work I had to do myself.

Now, I am one of the few people I know who don't have a financial adviser – and that's a risk I bear. I deal with this risk by investing in index funds because I am less likely to get emotionally captured by an individual stock. The returns I plan on are around the 7.0 per cent per annum mark – or the historic medium to long term performance of a 'balanced' portfolio. Other than the specific SMSF compliance costs, the cost of investing outside an SMSF is identical to doing it inside.

Many SMSF trustees also tend to be emotionally invested in their assets – often a property, or a small parcel of Australian shares – a combination which generally tends to underperform the broader stock market. In my post-SMSF years, I still have 'control' over my investments by selecting my investment options – but I am a firm believer "in getting rich slowly – and staying rich" (to quote financial journalist Edna Carew). I am also a long-term believer that stock picking is a glorified form of gambling.

And now to the second reason for this decision – the growing hassles of government regulation.

The ATO has recently written to 18,000 SMSF trustees with a "please explain" on the basis that an ATO audit activity allegedly established that 90 per cent of these funds held a single asset.

While there is nothing necessarily wrong with having a single asset in an SMSF, if it is true to your investment strategy, I would argue that such a strategy would be fundamentally flawed. I believe (as it seems, does the ATO) in diversification across all asset classes, within each asset class. A fund holding 10 or so Aussie stocks (and only Aussie stocks) is not sufficiently diversified.

The ATO is also cracking down on non-compliance. If the annual return for your SMSF is more than two weeks late, it will be classified "Regulation details removed" and that status will not be removed until the start of the next month after your fund is deemed compliant.

How does this approach affect members? APRA regulated funds won't roll over any member benefits to the SMSF, and super guarantee contribution payments are not able to be accepted… so you may end up in a world of pain.

Best practice is to ensure that your fund remains compliant at all times – but how many amateur SMSF trustees are able to meet compliance requirements?

As an SMSF trustee, here is a superficial list of SOME of the areas in which compliance requirements must be met (warning: don't show this to your partner if they have 'just been signing the forms' you put in front of them).

Contributions: Based on the age and work relationship of the member, there are minimum standards for accepting contributions into your SMSF, and the trust deed of your fund may have additional rules. You need to be aware of the types (and amount) of contributions which can be accepted by your fund.

Investment strategy: Must be reviewed annually and documented in writing, with consideration to all circumstances of the fund, including risk, diversity, liquidity and member circumstances (ie, their investment risk profiles and life Insurance needs).

Trustee reporting obligations (to the ATO and to the members): Including but not limited to, annual asset market valuations, preparation of annual financial accounts and statements, annual lodgement of audited SMSF returns and transfer balance cap reporting.

Ongoing SMSF compliance obligations: Ensuring that all fund investments comply with the superannuation laws, fund money and assets are held separately from related entities, all contributions received and benefit payments made are allowable, investment strategies are reviewed regularly, and all fund records are maintained in accordance with the super laws.

Paying an Income Stream: Must be permitted by the fund's trust deed, requires market valuation for the assets supporting the income stream, and may involve obtaining an actuarial certificate; the member must be able to meet a condition of release, and based on the age of the member, the minimum annual payment (and maximum payment if a TTR income stream) determined.

Record Keeping: Tax and super records need to be proper, accurate and accessible to auditors and the ATO. Accounting records, financial statements, annual returns and transfer balance reports must be kept for a minimum period of 5 years. Trustee meeting minutes (including minutes recording all investment decisions) records of trustee changes, trustee declarations and member consent records must be kept for at least 10 years.

Running a SMSF is not just about researching which stock is best. The responsibilities are onerous and the costs can be disproportionately high. I'm glad I retired mine.

* https://www.superguide.com.au/smsfs/smsfs-lead-the-super-pack-again accessed 19 September 2019.

Theo Marinis

More articles from Theo Marinis ›

https://www.eurekareport.com.au/investment-news/why-i-wound-up-my-smsf/146328