DO SMSFS STILL REQUIRE A $500,000 STARTING BALANCE TO BE COMPETITIVE?

Not too long ago, Self-Managed Superannuation Funds (SMSFs) were a structure that was only for the wealthy but is now more and more accessible thanks to various low-cost SMSF providers offering online platforms backed by offshore administrators.

There has never been a mandatory minimum balance to establish an SMSF, and with an influx of low-cost SMSF providers, starting balances have kept creeping lower. That was until a 2019 Productivity Commission investigation found SMSFs with less than $500,000 performed 'significantly worse' on average than regular funds and named $500,000 as the required minimum balance for an SMSF.

While the $500,000 was never an enforced minimum balance, advisers were told they should be prepared to justify to ASIC why they would recommend the establishment of an SMSF with a balance under $500,000 beyond the initial establishment years.

The starting balance is one of many factors that should be considered when contemplating an SMSF, which ASIC now agree with, having recently abandoned the previous $500,000 guidance.

Aside from the starting balance, another significant factor is trustee responsibility. Regardless of the balance and the use of tax, financial and superannuation professionals, the trustee is ultimately personally responsible for knowing and adhering to the rules associated with running an SMSF. It could be argued that a trustee with a low balance may not take the responsibility as seriously and the time required to learn the evolving rules, compared to a trustee with a larger fund where more is at stake.

If the trustee decides to save costs by handling the day-to-day paperwork themselves, what starts as a satisfying experience, particularly with a well-performing fund, may quickly become a burden once the initial honeymoon period wears off. At this point, an administration service can be used however the additional cost will eat into a smaller fund to a greater extent than a large fund.

A smaller fund also does not have a buffer if investments do not go as planned. It may not be wise to establish an SMSF with the view that it will make economic sense if or once the investments perform. A reduction in the balance may result in the fund only having a short life and a quick closure, which will come at an additional cost.

SMSFs are now increasingly popular, fuelled by the desire for greater transparency, increased flexibility, a hands-on approach, and performance that can be achieved from more investment selection and control. This is not new information, and retail superannuation providers have been adapting their own offerings to meet this demand. Retail superannuation funds have been cutting costs and improving transparency and flexibility to counter low-cost SMSF providers.

The removal of ASIC's $500,000 guidance is pleasing, however, should not result in a significant change to SMSF establishment numbers. If an SMSF is not deemed suitable, whether due to balance or another factor, there are various retail superannuation platforms available that will, in most cases, provide the same service, investment choice and transparency that initially led the potential trustee down the SMSF path.

Get in touch

If you would like to discuss whether establishing a Self-Managed Superannuation Fund is suitable and possible alternatives, get in touch with your Bell Potter adviser.

Jeremy Tyzack

Head of Technical Financial Advice
Bell Potter Securities

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