

# Submissions to the Financial System Inquiry

I'd like to make 2 quick points.

## 1. SMSFs, fees and minimum balances

The nature of SMSF fees is that its based on work involved. A fund with 10 shares and a bank account may have annual fees of \$2,000. The same fee applies if the fund has \$100,000 or \$5,000,000, because the number of transactions is the same.

Conversely industry and retail funds charge a percentage of the member balance, so the bigger the balance the bigger the fees.

The means that for low values a SMSF is clearly more costly as the larger funds percentage based fee structure delivers very low fees. Hence the concept of a minimum balance.

The same logic says that larger funds are very costly for a person with a large fund balance. If SMSFs have a minimum balance, maybe larger funds should have a maximum balance.

If fees were used to determine which structure a person's super could go to then maybe everyone should be required to be in the lowest fee industry/retail fund and the rest closed. People being advised to go into a retail fund where fees a higher than an industry fund is surely the same problem.

I don't really expect that to happen though. There are a number of reasons why people use different structures, and while fees is one of them its not the only one.

Also fees for SMSFs differ. In Sydney a large accounting firm in the CBD may charge double a small suburban firm. Fees differ based on location aswell, with regional accounting firms charging less than capital city counterparts. Fees also differ based on assets in the fund. A fund with \$400,000 that operates as a day trader may have fees much larger than an industry/retail fund, while a fund with \$150,000 with a bank account and 10 ASX listed shares may have lower fees than having this same balance in a larger fund.

Another reason against a minimum fee is that a fund started in June 2014 may have only had \$50,000 deposited in June, being the annual tax deductible contributions for 2 members, so is clearly a very low balance, but in August it gets large rollovers. A person starting a business may decide to use a SMSF to buy the property using a Limited Recourse Borrowing Arrangement. The business may not have the money and access to debt to buy a property, so has to rent, but may find great stability in renting to their own SMSF. While the fund balance may be low, the value of the SMSF far outweighs the higher fees.

While an effect of higher fees is to reduce someone's super balance and increase their likelihood of needing the age pension, so do many other things. Having a lower interest rate on your home loan can make a big difference aswell. Maybe we should look at some measure to get people to move from the big 4 banks and into borrowing from institutions with lower interest rates and fees.

There is a view that the calls for a minimum SMSF balance are driven by large retail funds, often owned by big banks. These same banks often have higher interest rates on home loans, as well as fees, and retail funds generally have higher fees than industry funds and also often have lower returns. Just looking at SMSFs is about protecting their market share rather than a genuine concern about superannuants.

## 2. SMSFs and Tax

You correctly note that the same tax rates apply to every super fund. If SMSFs pay less tax, this may be caused by a higher percentage of SMSF members being in retirement.

I suspect that part of the cause is that SMSFs often have members who deal with accountants and tax agents. These advisers obviously have a focus on tax and so may suggest strategies to get the best tax outcome, being their job and what they do for their business and personal clients as well.

I expect its also driven by SMSFs being looked at individually, while larger funds are run as a product. For example a number of SMSFs will have their superannuation contributions converted immediately to an income stream, which may not be practical for a larger fund. The accountant working on the SMSF takes the extra time to provide the service to the SMSF members.