



Australian Government

REVIEW INTO THE GOVERNANCE,  
EFFICIENCY, STRUCTURE AND OPERATION OF  
**AUSTRALIA'S SUPERANNUATION SYSTEM**

A STATISTICAL SUMMARY OF  
**SELF-MANAGED SUPERANNUATION FUNDS**

10 December 2009

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## 1. INTRODUCTION

### 1.1 Purpose

During the course of its work, the Super System Review (**Review**) became aware that there is a lack of comprehensive information on the self-managed superannuation fund (**SMSF**) sector which could inhibit the value of submissions to the Review on SMSF-related issues.

The aim of this publication is to provide a broad factual overview of the SMSF sector with a view to informing submissions relating to SMSFs in response to the *Phase Three: Structure (including SMSFs)* issues paper to be released shortly. It does not contain any questions or recommendations and is intended to be solely a statistical summary.

The publication is largely based on published statistical data<sup>1</sup> and other unpublished data provided by the Australian Taxation Office (**ATO**), which is currently the largest data collection agency for SMSFs. The statistics used in this report are principally based on 30 June 2008 data, derived from the most recent year of SMSF lodgment.<sup>2</sup> For comparisons with the non-SMSF sectors, we also use data published by the Australian Prudential Regulation Authority (**APRA**).<sup>3</sup> A small number of SMSF administrators also provided sample data representing between 0.03 to 3.41 per cent of the SMSF population. The general trends evidenced in these smaller datasets are broadly consistent with the ATO data.

Direct comparisons between SMSF and non-SMSF sectors need to be qualified due to differences in the way the data are collected by the ATO and APRA. However, we believe that this publication will provide useful statistical information, contributing to a better understanding of the SMSF sector and its role in Australian superannuation.

The Review has not yet formed a view on the questions raised in the *Phase Two: Operation and Efficiency* issues paper about what data should be collected and published (see section 8 of the issues paper dated 16 October 2009). However, it is hoped that this publication will stimulate an interest in better quality SMSF information.

While this publication aims to be factual only, any observations and views that are expressed are solely those of the Review and not those of the data agencies.

### 1.2 Background

SMSFs and their antecedents have been around for more than 30 years. They are superannuation entities regulated under the *Superannuation Industry (Supervision) Act 1993 (SIS Act)* and evolved from 'excluded superannuation funds' that were previously regulated by the Insurance and Superannuation Commission and APRA. In 1999, regulation of the SMSF sector was transferred from APRA to the ATO.

A SMSF may have a maximum of four members who are all trustees (either as individuals or directors of a corporate trustee). Unlike external trustees of small APRA-regulated funds (**SAFs**), SMSF trustees cannot be remunerated for their services. Ownership and control of all assets of the fund are closely aligned in SMSFs.

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1 ATO 2009, *Self-managed statistical report*, June 2009.

2 Lodgment of 2009 SMSF annual returns are not due till mid-May 2010.

3 APRA 2008, *Annual Superannuation Bulletin*, APRA Statistics, 10 June 2009.

The rules and regulations covering trustees of SMSFs come from several sources. They include: trust law, the trust deed of the superannuation fund; the SIS Act; the *Corporations Act 2001*; and the Income Tax Assessment Acts 1936 and 1997.

## 2. EXECUTIVE SUMMARY

The SMSF sector is the largest superannuation sector by number of funds and asset size. As at 30 June 2009, there were around 410,000 SMSFs, representing 99 per cent of all superannuation funds, with over \$332 billion or 30.9 per cent of total superannuation assets (\$1.08 trillion). The sector has about 772,000 members, which comprises about 7 per cent of the roughly 11.6 million<sup>4</sup> members in Australian superannuation.

The SMSF sector has reached its leading asset-size position in the superannuation industry, surpassing the retail sector in 2009, through rapid growth in recent years, increasing from \$132 billion to \$332 billion in the five years to 30 June 2009; an annualised growth rate of 20 per cent.

Compared to members of other types of superannuation funds, SMSF members are, on average: older; earn a higher income; and have larger superannuation balances.

SMSFs hold a majority of their assets directly; with nearly 60 per cent of assets held in cash, term deposits and Australian listed shares. SMSFs are exposed to little direct overseas investments.

Over the three years to 30 June 2008, the asset-weighted average returns of the SMSF sector were higher than those of the non-SMSF sector. However, the differences may be due to special demographic, asset allocation, tax and other factors (for example, certain costs might not be explicitly included in SMSF accounts).

Operating expense ratios and performance of SMSFs appears to correlate significantly with SMSF size. While the operating expenses of the SMSF sector have fallen by 20 per cent over the three years to 30 June 2008, there has been a wide dispersion of outcomes among SMSFs. On average, small-sized SMSFs lack investment diversification, suffer higher relative costs and underperform larger-sized SMSFs.

## 3. GROWTH OF SMSF SECTOR

In the five years to 30 June 2009, the SMSF sector grew at an annualised rate of 20 per cent.<sup>5</sup> Over the same period, APRA-regulated funds grew at an annualised rate of 8 per cent.<sup>6</sup> The relatively strong growth of the SMSF sector came from contribution flows to existing SMSFs, the establishment of new SMSFs, and net rollovers from other non-SMSF sectors, as well as from investment earnings.

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4 Australian Bureau of Statistics 2007, *Employment Arrangements, Retirement and Superannuation, Australia*, Apr to Jul 2007 (Re-issue), cat. no. 6361.0, ABS, Canberra, p 16.

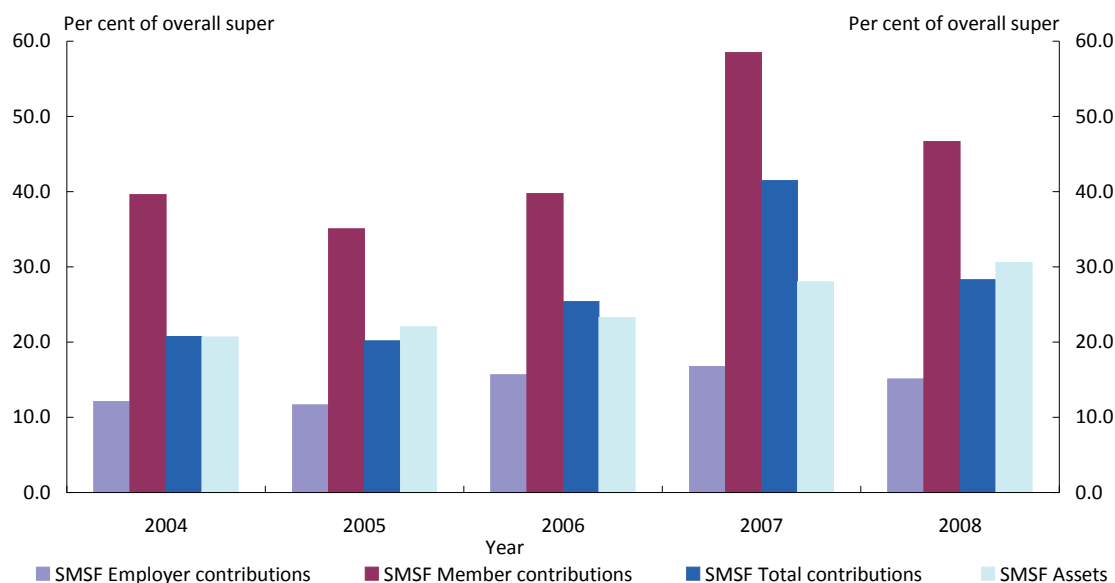
5 APRA 2008, *Annual Superannuation Bulletin*, APRA Statistics, 10 June 2009.  
APRA 2008, *APRA June 2008 Quarterly Superannuation Performance*, 24 September 2008.

6 APRA 2008, *Annual Superannuation Bulletin*, APRA Statistics, 10 June 2009.  
APRA 2008, *APRA June 2008 Quarterly Superannuation Performance*, 24 September 2008.

### 3.1 Contribution flows

In the five years to 30 June 2008, the SMSF sector received between 20 and 41 per cent of total annual superannuation contributions (refer graph 1). The peak of 41 per cent of contributions occurred in the year to 30 June 2007, when the abolition of the former reasonable benefit limit regime was announced and a temporarily high one-off annual contribution limit of \$1 million was available (refer appendix 1, table 1). Over this five year period, member contributions to SMSFs were greater than employer contributions by a factor of roughly three to one. The total contribution to the SMSF sector was approximately proportionate to its asset size for the period, except in the 2007 financial year.

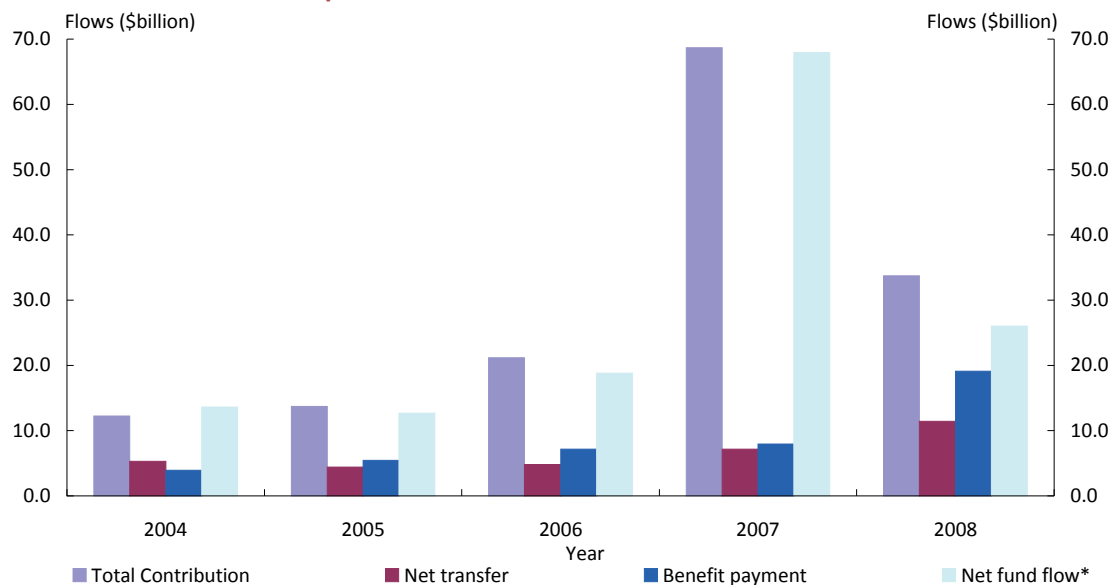
**Graph 1: SMSF contribution and assets as a percentage of Australian superannuation contributions (member, employer and total) and total Australian superannuation assets**



Source: ATO and APRA

A spike in total contributions in dollar terms during 2007 can be seen clearly in the following graph. Of the nearly \$70 billion in total SMSF contributions, member contributions accounted for over \$57 billion or 80 per cent of total SMSF contributions in that year.

**Graph 2: Breakdown of total SMSF fund flows**



\* Net fund flow = Total contribution + Net Rollovers — Benefit payments

Source: ATO

In the year to 30 June 2008, about 70 per cent of all SMSF members received an employer contribution and/or made a member contribution. Overall, 43 per cent of all members made member contributions, and 46 per cent of all members received employer contributions. The average combined member and employer contribution per SMSF member was \$68,156, while the median combined member and employer contribution was \$26,475.

### 3.2 SMSF rollovers

Over the five year period to 30 June 2008, outward rollovers<sup>7</sup> from the SMSF sector to other sectors rose by 392 per cent,<sup>8</sup> while inward rollovers to the SMSF sector from other sectors rose by 157 per cent, albeit from a much higher base (refer appendix 1, table 2). However, in monetary value, the net effect has still been an increasing flow of funds into the SMSF sector, with net rollovers of \$11.4 billion occurring in the year ended 30 June 2008 (refer graph 3).

In the *2008 ATO new trustee questionnaire*,<sup>9</sup> 81 per cent of respondents said they had existing superannuation accounts prior to establishing their SMSF. Of these, 85 per cent said they rolled over some or all of their existing superannuation into their new SMSF (the average rollover was \$236,441, while the median value was \$130,000).<sup>10</sup> The majority of

7 This does not include benefit payments.

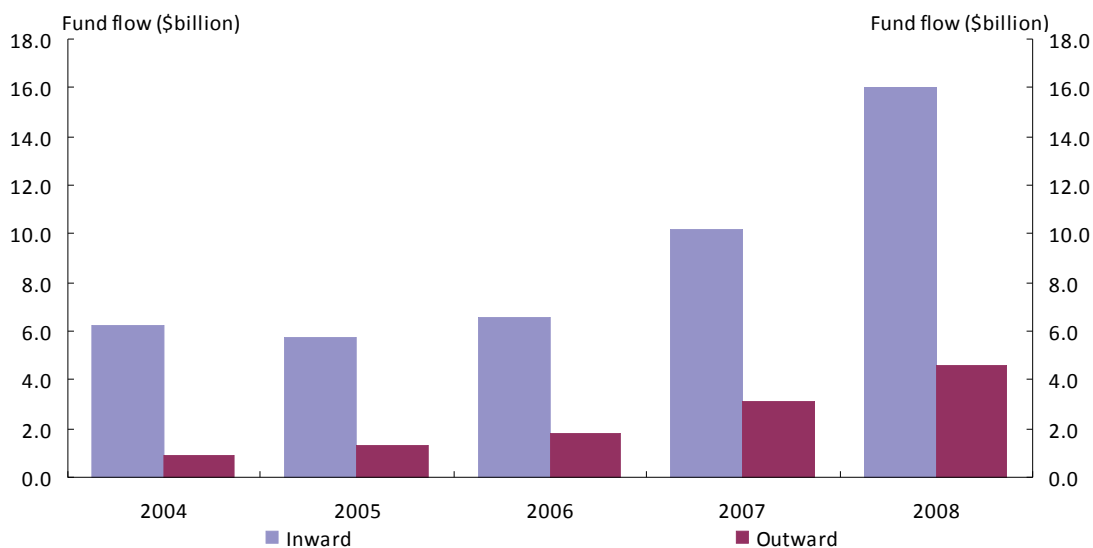
8 It is possible that a small portion of these rollovers could be to another SMSF.

9 A compliance activity undertaken in the 2009 financial year which was comprised of a series of questions targeting trustees of newly established funds. The questionnaire was sent to 3,000 trustees and 2,423 responses were received. The population of respondents consisted of both random and risk-based selections of funds, 37 and 63 per cent, respectively.

10 1,666 respondents to this question who provided values of their rollovers.

trustees who rolled over<sup>11</sup> their superannuation said that their superannuation was previously held in retail and industry funds (refer appendix 1, table 3).

**Graph 3: Total SMSF rollovers**

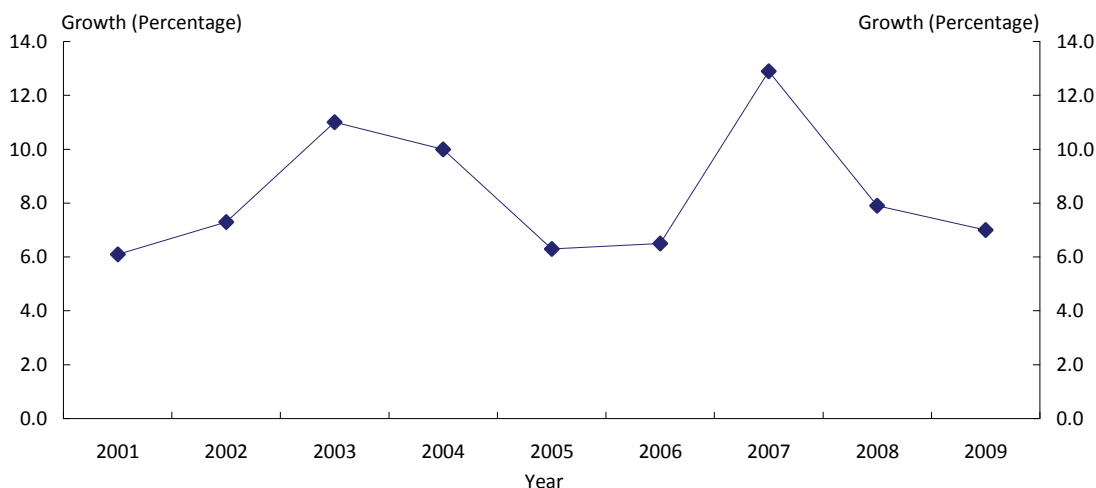


Source: ATO

### 3.3 Growth in the number of SMSFs

Since 1 July 2007, new funds have been established at the rate of 2,000 to 3,000 a month (that is approximately 30,000 per year) reduced by approximately 3,400 wind-ups a year (refer appendix 1, table 4). Over the past 10 years, the net growth rate of SMSFs fluctuated between a low of just over 6 per cent in 2001 to a high of nearly 13 per cent in 2007 (refer graph 4).

**Graph 4: Growth in the number of SMSFs**



Source: ATO

Despite the recent surge in growth of the SMSF sector, most funds are well-established entities, with the average fund having existed for eight years. About 64 per cent of SMSFs

<sup>11</sup> This is based on the number of rollovers and not by value of rollovers. In some instances, trustees have indicated rolling over amounts from multiple fund sectors.



have been established for more than five years, 38 per cent have been established for more than ten years. In contrast, 15 per cent have been established for less than two years (refer appendix 1, table 5).

A desire for greater 'control' has often been cited as a reason why people establish SMSFs. Respondents to the *2008 ATO new trustee questionnaire*, cited control of investments in 86 per cent of responses<sup>12</sup> as a reason for establishing their SMSF; 46 per cent ranked this as their principal reason. Greater flexibility over investment options and the belief they could perform better than their previous funds were also cited; 64 per cent and 53 per cent, respectively (refer appendix 1, table 6).

### 3.4 SMSF growth through investment earnings

A component of SMSF sector growth can be attributed to investment earnings and performance; this is discussed in Section 8: Investment performance.

## 4. SMSF MANAGEMENT

### 4.1 Trustee structure

SMSFs can be established with either a corporate trustee (where all members are directors of the corporate trustee), or with individual trustees (where all the members are also trustees).

Companies established for the sole purpose of acting as trustee of a superannuation fund pay a reduced Australian Securities and Investments Commission (**ASIC**) annual review fee of \$40 per annum.<sup>13</sup> All SMSFs pay an annual supervisory levy of \$150 to the ATO. By contrast, SAFs, funds with fewer than five members that have an independent trustee, pay a supervisory levy of \$500 a year to APRA.

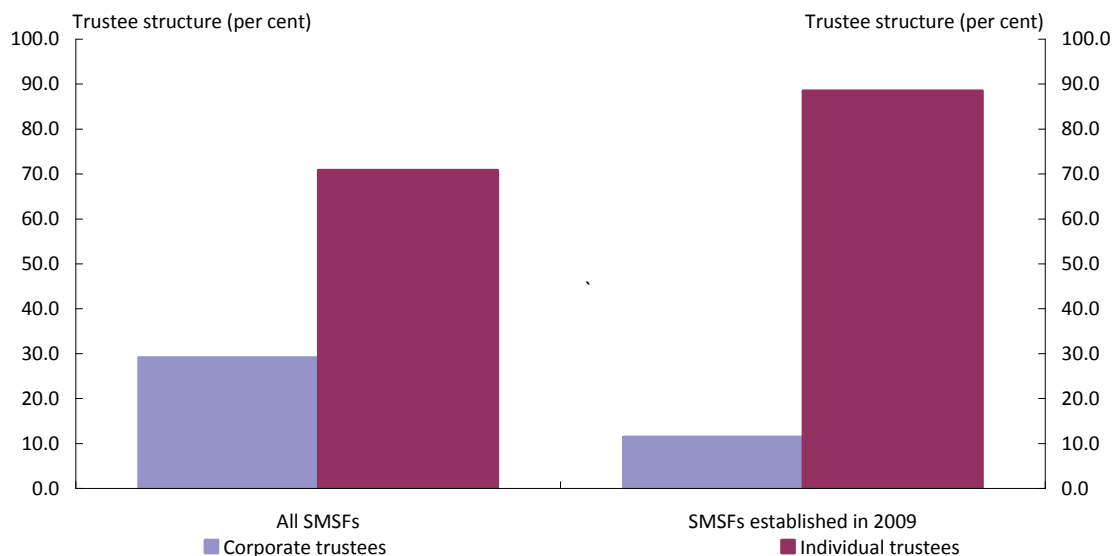
Currently, around 71 per cent of SMSFs have individual trustees and not a corporate trustee (refer graph 5). In recent years, nearly 90 per cent of SMSFs have been established without a corporate trustee (refer appendix 1, table 7).

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12 2,404 respondents to this question.

13 The ASIC fee only applies to SMSFs with a corporate trustee.

Graph 5: SMSF trustee structure



Source: ATO

## 4.2 Service providers

Trustees can and do utilise a variety of professionals to assist them with their SMSFs. The *2008 ATO new trustee questionnaire* shows that, at establishment, 72 per cent of trustees<sup>14</sup> consulted with a tax agent/accountant and 42 per cent consulted with a financial adviser.<sup>15</sup> Only 3 per cent of trustees said that they did not seek any financial advice or support when establishing their fund (refer appendix 1, table 8).

Since establishing their SMSFs, respondents to the *2008 ATO new trustee questionnaire* said they paid for professional services such as the preparation of annual returns (74 per cent), ongoing administration (49 per cent) and legal services (49 per cent). Only 11 per cent of trustees said they self-administered and did not pay for any professional services (refer appendix 1, table 9).

All SMSFs must have their financial accounts and compliance with the SIS Act audited by approved auditors each year. For the year ended 30 June 2007, the ATO estimated that there were 11,500 approved auditors operating in the SMSF sector. The average number of audits undertaken per auditor had risen to about 35 in 2008, although 51 per cent of auditors performed less than five SMSF audits in that year, covering around 3 per cent of the SMSF population. On the other hand, 2.3 per cent signed more than 250 audits (refer appendix 1, table 10).<sup>16</sup> Based on 2008 SMSF annual return data, auditors of 18 per cent of SMSFs also provided other services such as acting as a tax agent, accountant, financial adviser or administrator.<sup>17</sup>

The SMSF sector is currently serviced by around 15,500 tax agents/accountants, with 81 per cent of all SMSFs registered with a tax agent. Tax agents/accountants have an

<sup>14</sup> 2,423 respondents to this question.

<sup>15</sup> Multiple responses were allowed for this question; responses show trustees consulted with multiple professionals.

<sup>16</sup> This analysis was done when about half of the 2008 financial year SMSF annual returns had been lodged.

<sup>17</sup> This figure is potentially understated. Anecdotal information from accounting professionals suggests that accounting practices are providing other services in addition to the audit service. It is thought that this is not disclosed in the SMSF annual return because those services are carried out by others in the practice.

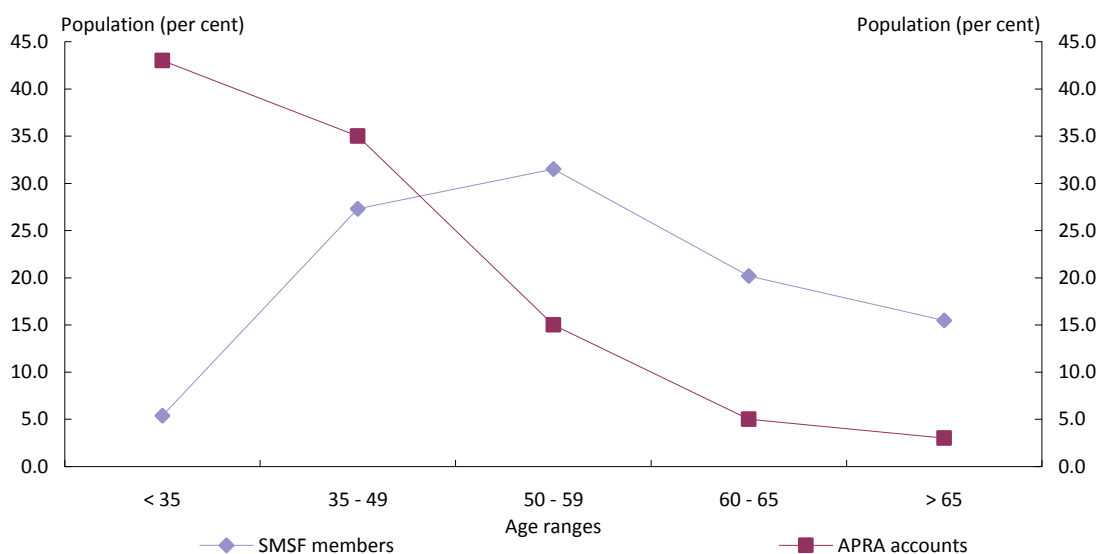
average of 22 SMSF clients, although 60 per cent have 10 or less SMSF clients. About 20 per cent, or 3,100 tax agents, only registered a single SMSF, and only 4 per cent, or 620 tax agents, registered more than 100 SMSFs (refer appendix 1, table 11).

## 5. MEMBER DEMOGRAPHICS

As at 30 June 2009, the SMSF sector had 772,000 members. Looking at the number of members per fund: 67.9 per cent had two members; 23 per cent had a single member; while 4.5 per cent and 4.6 per cent had three and four members, respectively. Males represented 54 per cent of all SMSF members.

Members aged 50 or over represent 67 per cent of the SMSF sector, compared with only 22 per cent of the other superannuation sectors<sup>18</sup> (refer graph 6). Of all SMSF members, 19.4 per cent are over the age of 64 (11.9 per cent male and 7.5 per cent female) (refer appendix 1, table 12). The non-SMSF sector had only 3 per cent aged 65 and over (refer appendix 1, table 13). The SMSF sector had only 5.5 per cent of members aged under 35, while the non-SMSF sector had 43 per cent of its members under the age of 35.

**Graph 6: Age distribution of SMSF members and APRA account age ranges (for funds with more than four members)**



Source: ATO and APRA

Of the 6,188 newly established funds in the June quarter 2009, only 7.5 per cent of the members were aged 65 and over, 11.6 per cent were aged below 35 and the majority, at 80.9 per cent, were aged between 35 and 64. Member age for newly established funds is younger than the existing age demographic for all SMSFs; 66 per cent of members in new funds were aged under 55, compared to 46 per cent for all SMSF members (refer appendix 1, table 12).

As at 30 June 2008, 22 per cent of all members and 27 per cent of all SMSFs were fully or partially in the pension withdrawal phase. Of the members who were fully or partially in the pension withdrawal phase at that time, 5.2 per cent also received a full or partial

18 APRA 2008, *Annual Superannuation Bulletin*, APRA Statistics, 10 June 2009.

government age pension. Overall, this represents 1.2 per cent of the entire SMSF member population.

SMSFs that started paying a pension in the 2008 financial year had, on average, been established for at least seven years.

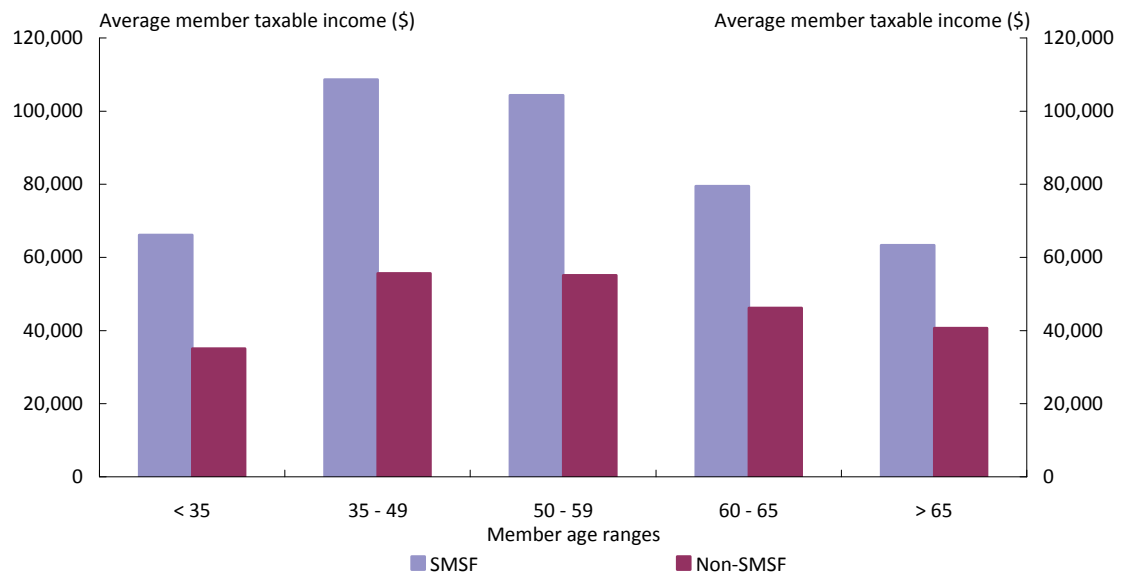
## 6. MEMBER INCOME

Many sole traders and small family business owners use SMSFs as their superannuation vehicle. Nearly 39 per cent of all SMSF members are self-employed or derive their income from a business or partnership.<sup>19</sup> Half of all SMSFs have at least one member who is self-employed or derives income from a business or partnership.<sup>20</sup>

In percentage terms, rural SMSF members closely mirror the 14 per cent of the Australian population living in rural areas.<sup>21</sup> SMSF members living in rural areas represent 13 per cent of all SMSF members and 13 per cent of all SMSFs have at least one rural member.

The peak earning years for Australian workers are generally in the age range 35 to 60. For SMSF members in this age range, their average annual taxable income is about \$106,000, while for other types of superannuation fund members, their average annual taxable income is about \$55,000 (refer graph 7). On average, over all age groups, SMSF members have an annual taxable income of \$92,000, while members of other types of funds, on average, earn less than \$47,000 (refer appendix 1, table 14).<sup>22</sup>

**Graph 7: 2008 Taxable Income levels by age of SMSF and non-SMSF superannuation members**



Source: ATO

19 Based on data collated from SMSF members' 2008 individual income tax returns.

20 The proportion of this income to the individual's total income is not known.

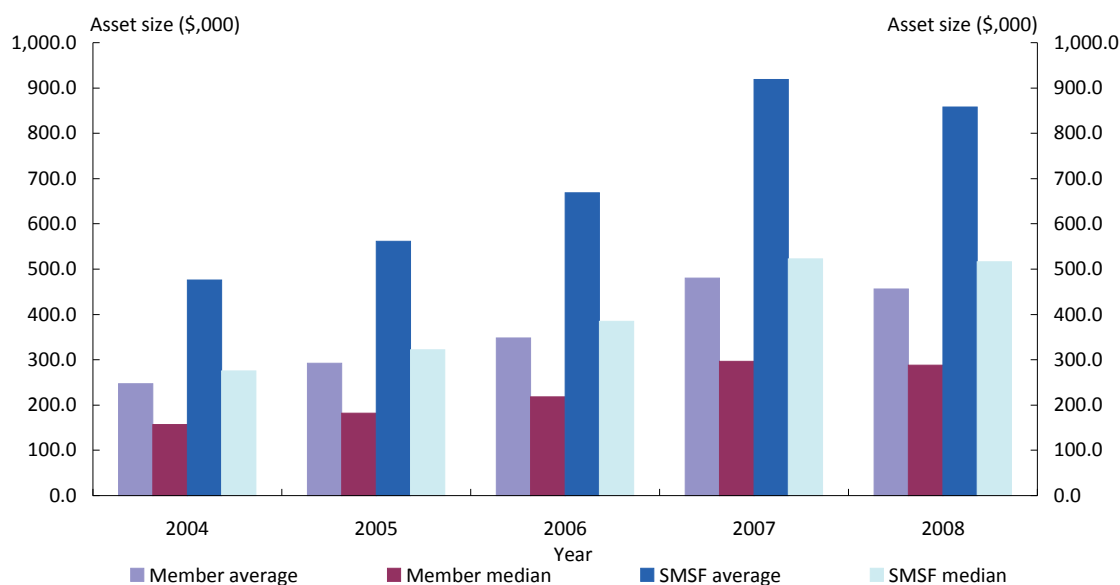
21 ABS 2004, Measures of Australia's Progress, 21 April 2004.

22 Data for older members (of all funds) who receive pension incomes is potentially not captured in ATO taxable income calculations.

## 7. MEMBER BALANCES

As at 30 June 2008, the average SMSF member balance was \$456,000 (refer graph 8 and appendix 1, table 15), which is more than 18 times the average account balance of less than \$25,000<sup>23</sup> for all superannuation funds with more than four members.<sup>24</sup> Despite the average Australian superannuation fund member having three different superannuation accounts,<sup>25</sup> the wealth accumulation by SMSF members through superannuation is significantly higher than non-SMSF members, which is consistent with the demographic and income statistics referred to above.

**Graph 8: SMSF and member asset sizes**



Source: ATO

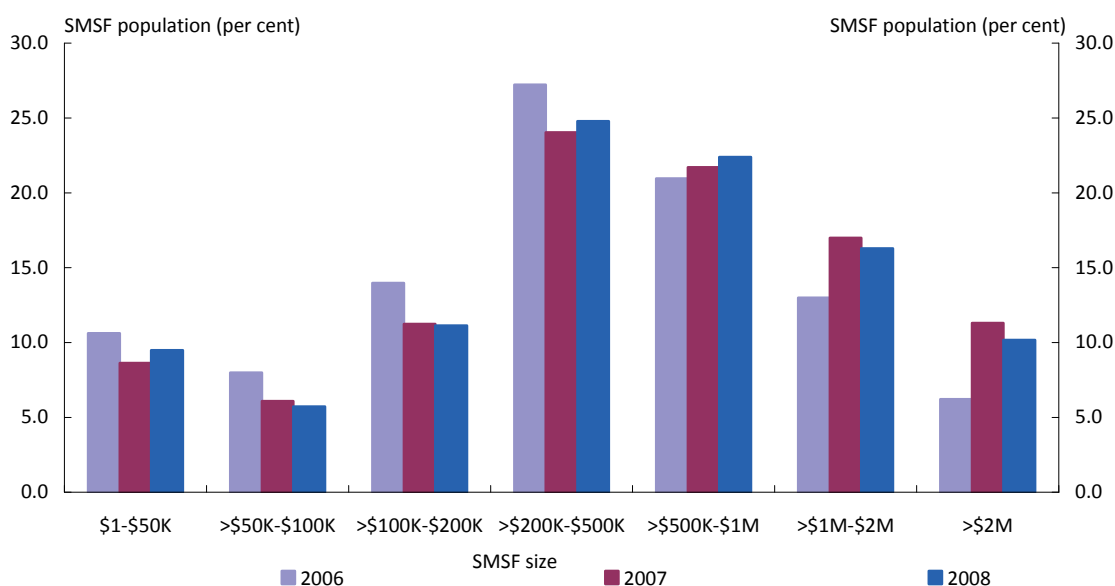
From the 2004 to 2008 financial years, the average SMSF member account balance nearly doubled to \$456,000, despite the negative impact of the global financial crisis. The proportion of small-size SMSFs (less than \$200,000) has been reducing over the last five years from 42 per cent of SMSFs to 26 per cent (refer appendix 1, table 16). The proportion of medium-size SMSFs (between \$200,000 and \$1 million) has steadied at about 47 per cent, while the large-size SMSFs (greater than \$1 million) have increased to about 26 per cent (refer graph 9).

23 APRA 2008, *Annual Superannuation Bulletin*, APRA Statistics, 10 June 2009.

24 That is, excluding all SMSFs, SAFs and approved deposit funds.

25 Hattingh, A, Ng, J and Rice, M 2008, *Consolidation of superannuation accounts*, prepared for CHOICE by Rice Warner Actuaries, November 2008.

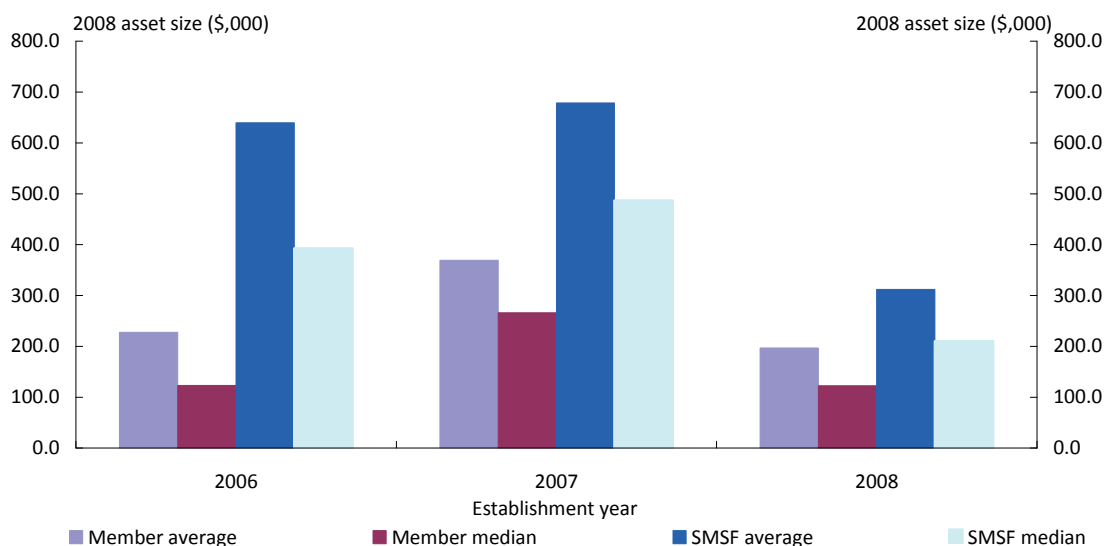
**Graph 9: SMSF asset sizes**



Source: ATO

As at 30 June 2008, the median size of SMSFs established in that year was \$210,100, while the median asset size of SMSFs established in the 2006 and 2007 financial years was \$392,200 and \$486,900, respectively, in 2008 (refer graph 10).

**Graph 10: SMSF and member asset sizes for those SMSFs established in the last three years**



Source: ATO

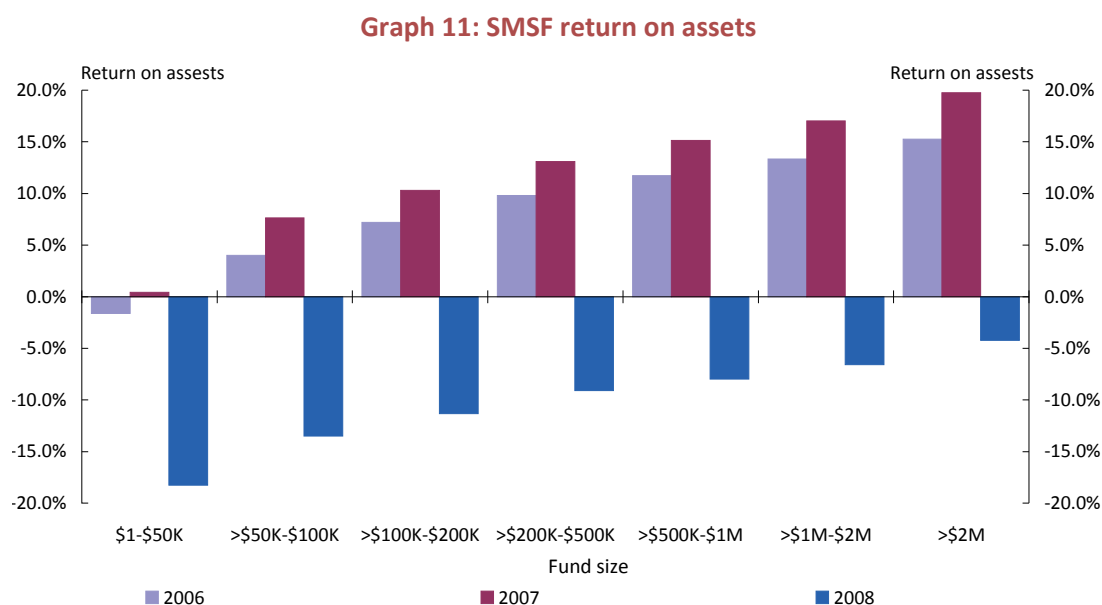
SMSFs are not necessarily the sole source of superannuation savings for SMSF members. As at 30 June 2008, around 25 per cent of SMSF members had accounts in other types of funds (non-SMSFs). SMSF members who had superannuation in at least one other fund, had on average \$272,000 in the SMSF sector and \$78,000 outside the SMSF sector.

## 8. INVESTMENT PERFORMANCE

According to ATO estimates<sup>26</sup> for financial years 2006, 2007 and 2008, the return on assets (ROA) for the SMSF sector was 12.6 per cent, 16.9 per cent and -6.1 per cent, respectively.<sup>27</sup> By comparison, at a whole of industry level, APRA-regulated funds with more than four members returned 12.2 per cent, 13.3 per cent and -7.8 per cent, respectively.<sup>28</sup>

We caution that the above performance figures might not be directly comparable due to a number of differences (refer to appendix 2). Also, average ROA varies markedly across sectors within the APRA-regulated sector. For example, in the year to 30 June 2008, average ROA varied from -5.3 per cent for corporate funds to -10.3 per cent for retail funds.<sup>29</sup>

On a year-by-year basis, there is a correlation between fund size and SMSF investment performance (refer graph 11). The largest SMSFs (more than \$2 million) outperformed the smallest SMSFs (\$50,000 or less) in each of the three years to 30 June 2008 by between 14 and 19 per cent (refer appendix 1, table 17).



Source: ATO

As at 30 June 2008, 70 per cent of SMSFs had a negative return. Prior to the global financial crisis, in the financial years 2006 and 2007, 19 per cent and 14 per cent of SMSFs, had a negative return, respectively.

26 ATO followed APRA methodology in the calculation of return on assets, but data items collected from SMSFs are not identical to those collected by APRA for non-SMSFs.

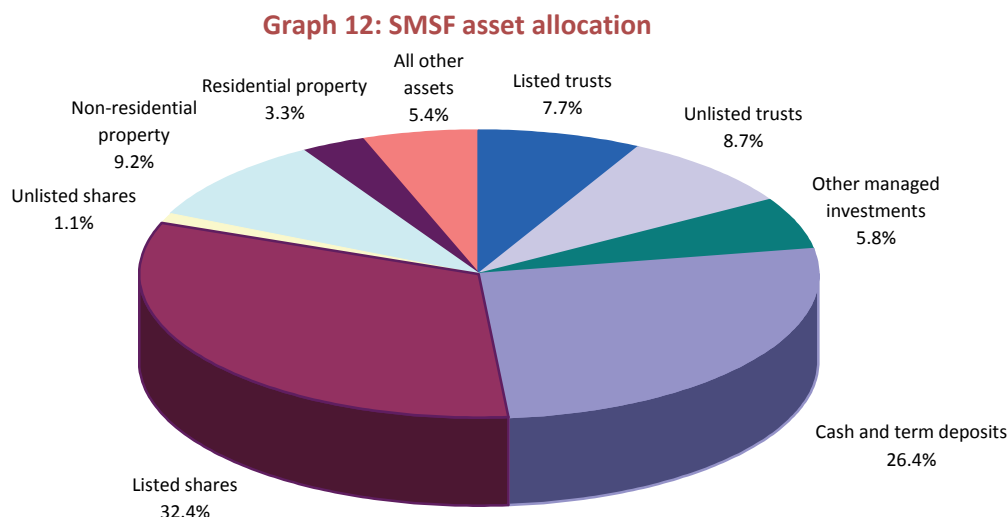
27 Data obtained from one SMSF administrator with access to data on approximately 14,000 SMSFs (whose average fund sizes were less than the ATO average) estimated the average ROA for 2007 at 9.6 per cent and for 2008 at -14.1 per cent. Another administrator with approximately 2,500 SMSFs (whose average fund sizes were larger than the ATO average) estimated the average ROA of their SMSFs at 14.6 per cent, 21.5 per cent and -5.5 per cent over 2006, 2007 and 2008, respectively.

28 APRA 2008, *Annual Superannuation Bulletin*, APRA Statistics, 10 June 2009.

29 APRA 2008, *Annual Superannuation Bulletin*, APRA Statistics, 10 June 2009.

## 9. ASSET ALLOCATION

As at 30 June 2008, 58.8 per cent of SMSF assets were held directly in two asset classes: Australian listed shares (32.4 per cent) and cash and term deposits (26.4 per cent) (refer graph 12 and appendix 1, tables 18 and 19). The default investment strategies of APRA-regulated funds, at the same time, showed average allocations to domestic equities of 29 per cent<sup>30</sup> and fixed interest of 26 per cent.<sup>31</sup>



Source: ATO

As at 30 June 2008, the SMSF sector held more than 71 per cent of its investments in commonly recognised assets held directly by the SMSF<sup>32</sup> (refer table A). Direct investments would increase to 78 per cent if overseas and miscellaneous investments were also included. Only approximately 22 per cent of assets were invested in trusts and managed investment schemes. This contrasts with large superannuation funds (greater than \$50 million in assets) where at most 12 per cent of their assets are held directly, with the remaining 88 per cent held indirectly through life policies, trusts and managed investment schemes.<sup>33</sup>

The SMSF sector has a very low exposure to overseas assets, even allowing for the fact that some managed investments or listed shares might have substantial overseas exposures. Default APRA-regulated superannuation funds had about 29 per cent of their assets invested overseas.<sup>34</sup> For the three years ended 30 June 2008, the low exposure to overseas investments might have assisted the SMSF sector in out-performing other superannuation

30 Default APRA fund strategies have a larger exposure to overseas equities (23 per cent). Source: APRA 2008, *Annual Superannuation Bulletin*, APRA Statistics, 10 June 2009.

31 APRA 2008, *Annual Superannuation Bulletin*, APRA Statistics, 10 June 2009.

32 Commonly recognised direct assets = listed shares (32.4 per cent) + cash and term deposits (26.4 per cent) + residential and non-residential real property (12.5 per cent).

33 Source: APRA 2008, *APRA June 2008 Quarterly Superannuation Performance*, 24 September 2008, (refer table 1, p 3).

34 As at 30 June 2008, the default investment strategy of the non-SMSF sector had 23 per cent in international shares and 6 per cent in international fixed interest.

Source: APRA 2008, *Annual Superannuation Bulletin*, APRA Statistics, 10 June 2009.



funds, as Australian assets generally performed better than overseas assets over this period.<sup>35</sup>

**Table A: SMSF asset allocation percentages (2008)**

<b>Asset classes</b>	
Listed shares	32.4
Unlisted shares	1.1
<i>Direct equities</i>	<b>33.5</b>
Cash and term deposits	26.4
Debt securities	0.7
Loans	0.6
<i>Direct fixed interest</i>	<b>27.6</b>
Non-residential real property	9.2
Residential real property	3.3
<i>Direct property</i>	<b>12.5</b>
Listed trusts	7.7
Unlisted trusts	8.7
Insurance policy	0.1
Other managed investments	5.8
<i>Indirect investments</i>	<b>22.3</b>
Overseas shares	0.2
Overseas managed investments	0.1
Other overseas assets	0.5
<i>Overseas investments</i>	<b>0.8</b>
Derivatives and instalment warrants	0.1
Artwork, collectibles, metal or jewels	0.1
Other assets	3.0
<i>Miscellaneous investments</i>	<b>3.3</b>
<b>Total</b>	<b>100.0</b>

Source: ATO

As at 30 June 2008, the 27 per cent of SMSFs that were fully or partially in pension withdrawal phase owned 47 per cent of all SMSF assets. The asset allocations in these funds were very similar to SMSFs in accumulation phase (refer appendix 1, table 20).

In terms of risk management, very small SMSFs face difficulties in portfolio diversification. As at 30 June 2008, around 53 per cent of SMSFs with a fund size of \$50,000 or less had all their investments in a single asset class.<sup>36</sup> Overall, 20 per cent of SMSFs had all their investments in a single asset class at that time (refer appendix 1, tables 21 to 23).

For SMSFs with a fund size of \$50,000 or less, 77 per cent of their assets are in listed shares or cash. As SMSF asset size increases, investments are typically diversified into real property and managed funds, though average allocation to cash and listed shares remains above 54 per cent, even for SMSFs with more than \$10 million in assets (refer appendix 1, table 19).

35 For example, the three-year total returns to 30 June 2008 for the S&P500 was 7.4 per cent, for the Nikkei was 16.4 per cent, for the All Ordinaries was 20.9 per cent and for the Australian dollar versus the US dollar was 26 per cent.

36 As per ATO asset classes within the SMSF annual return.

## 10. OPERATING EXPENSES

The average operating expense ratio<sup>37</sup> of the SMSF sector assets has declined from 0.86 per cent, to 0.77 per cent and to 0.69 per cent over the 2006, 2007 and 2008 financial years respectively, an almost 20 per cent reduction.<sup>38</sup> These expense ratios are lower than the 1.2 per cent typically estimated<sup>39</sup> for the whole superannuation industry (including SMSFs) as shown in the following table.

We caution that the above operating expense ratios might not allow a meaningful comparison between SMSF and non-SMSF sectors due to a number of possible differences. Refer to appendix 2, for a discussion around these differences.

**Table B: Estimate super fees by segment (2008) — per cent of Funds Under Management**

Sector	Administration (%)	Investment management (%)	Administration and investment management (%)	Cost of advice (%)	Total expenses (%)
Corporate	0.21	0.47	0.68		0.68
Industry	0.38	0.67	1.05		1.05
Public	0.21	0.46	0.67		0.67
Retail	0.69	0.69	1.37	0.44	1.81
SMSF	0.31	0.52	0.83	0.15	0.98
<b>Total</b>	<b>0.42</b>	<b>0.59</b>	<b>1.02</b>	<b>0.19</b>	<b>1.21</b>

Source: Banc of America Securities — Merrill Lynch estimates based on Rice Warner 2008 fee analysis.

In dollar terms, the average SMSF operating expense has increased from \$5,500, to \$6,000 and to \$6,500 over the 2006, 2007 and 2008 financial years, respectively.

Economies of scale are evident in the operating expenses of the SMSF sector (refer graph 13). Very small SMSFs, with \$50,000 or less in assets, have average annual operating expenses of 5 to 6 per cent of their total assets. The average annual operating expense then declines uniformly with average asset size to the range 0.36 to 0.47 per cent for SMSFs with more than \$2 million in assets, between the 2006 and 2008 financial years (refer appendix 1, table 24).

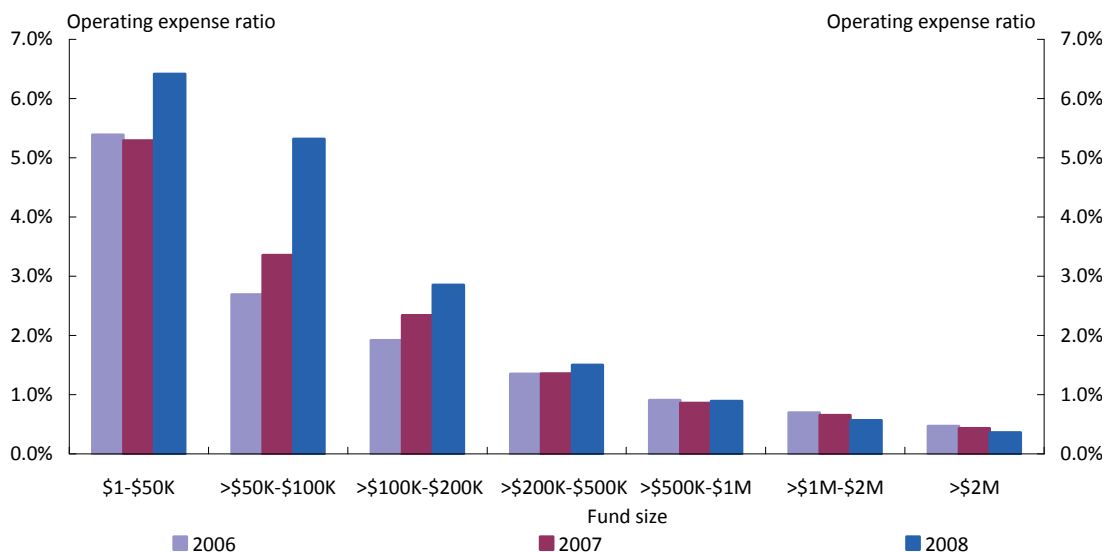
37 The ATO follows APRA methodology in the calculation of expense ratios from audited accounting data.

38 In contrast, the 2009 Rainmaker Fee Review reported fees for small funds at 0.79 per cent for 2009, while Rice Warner, Superannuation Fees Report, December 2008 reported SMSFs fees at 0.87 per cent and 0.98 per cent for the 2006 and 2008 financial years, respectively. Data obtained from one SMSF administrator with access to approximately 14,000 SMSFs (whose average fund sizes were less than the ATO average) estimated the average operating expenses for these at 0.8 per cent and 0.9 per cent over 2007 and 2008 financial years, while another administrator with approximately 2,500 SMSFs (whose average fund sizes were larger than the ATO average) estimated the average operating expense at 0.41 per cent, 0.36 per cent and 0.44 per cent over 2006, 2007 and 2008 financial years, respectively.

39 IFSA and Rice Warner Actuaries 2008, *Superannuation Fees Report – Market Segment Analysis* at 30 June 2008: December 2008.

Sy, W and Liu, K 2009, *Investment performance ranking of superannuation firms*, APRA Working Paper: June 2009.

**Graph 13: SMSF operating expense ratios**



Source: ATO

The proportion of SMSFs with operating expenses ratios of less than 1 per cent for 2006, 2007 and 2008 financial years was 57 per cent, 60 per cent and 62 per cent, respectively. In 2008, 31 per cent of SMSFs had an operating expense ratio of 0.25 per cent or less (refer appendix 1, table 25).

Of the average \$6,500 in operating expenses in 2008, the average audit fee was \$664. The average audit fee differed significantly between those auditors who performed other SMSF services,<sup>40</sup> and those who only performed the audit service. On average, auditors providing other services charged \$954 for the audit service,<sup>41</sup> and auditors who only provided audit services charged \$608 (refer appendix 1, table 26). Over 50 per cent of SMSFs reported paying less than \$500 in audit fees (refer appendix 1, table 27).

40 As disclosed on the 2008 SMSF annual return.

41 The charge does not include the cost of the other services.

## 11. COMPLIANCE

Certain legal exemptions, some of which are now grandfathered, allow SMSFs to have related party investments, such as 'in-house assets'.<sup>42</sup> These related party investments have remained small, declining from 3.3 per cent of SMSF assets in 2004, to 2.4 per cent in 2008 (refer appendix 1, table 28). Funds with related party investments hold about 40 per cent of their assets in unlisted trusts (refer appendix 1, table 29).

As at 30 June 2008, approved auditors qualified 3.8 per cent of their SMSF audits relating to either a financial and/or a regulatory compliance issue.<sup>43</sup> This compares to 3.5 per cent of APRA-regulated funds that received a qualified audit report.<sup>44</sup>

Over the four years to 30 June 2008, SMSF annual return lodgment rates by due date averaged 71 per cent. Currently, 87 per cent of SMSFs have lodged their 2008 SMSF annual returns.<sup>45</sup> As time passes, SMSF lodgment rates increase. Currently, the average lodgment rate of SMSF annual returns for the preceding three financial years is around 94 per cent (refer appendix 1, table 30).

Approved auditors are required to submit to the ATO, as part of the annual audit, Auditor Contravention Reports (**ACRs**) that disclose SMSF contraventions according to ATO reporting guidelines.<sup>46</sup> These range from administrative contraventions to more serious contraventions, such as lending to members.

There were 6,476 SMSFs for which ACRs were lodged in the year to 30 June 2009, containing 15,002 reported contraventions.<sup>47</sup> Of these contraventions, almost half were rectified prior to the ATO receiving them (52 per cent were reported as unrectified; representing 57 per cent of the contraventions by monetary value).

The demographic of SMSFs with ACRs are generally in line with the overall SMSF population, indicating that there is no correlation between the receipt of an ACR and the SMSF size, SMSF income range, years since establishment, structure or the geographic location of the SMSF.

As at 30 June 2009, 70 per cent of SMSFs with ACRs had an ACR for only one audit year, while 30 per cent had been the subject of ACRs for two or more audit years.<sup>48</sup>

42 'In-house assets' are, subject to specific exceptions, a loan to or an investment in a related party of the SMSF, or investments in a related trust or assets that are subject to a lease or lease arrangement with a related party of the SMSF. Superannuation funds are allowed to have up to 5 per cent of their total assets as in-house assets.

43 These do not necessarily require the approved auditor to lodge an Auditor Contravention Report.

44 APRA 2008, *Annual Superannuation Bulletin*, APRA Statistics, 10 June 2009.

45 Typically SMSFs are required to lodge their annual return by 15 May of the following financial year. An extension was provided for the 2008 SMSF annual return until the end of May 2009.

46 Reporting requirements are detailed in the ATO document: *Completing the Auditor/actuary contravention report*: <http://www.ato.gov.au/superfunds/content.asp?doc=/content/46166.htm>

47 Approved auditors can report multiple contraventions, for the one SMSF, in a single ACR.

48 Where a fund has ACRs for more than one audit year, a contributing factor can be where funds catch up on their outstanding lodgments and have simultaneous audits for more than one year resulting in multiple ACRs being submitted.

From 1 July 2005 to 30 June 2009, the number of SMSFs receiving an ACR has increased by an annualised rate of approximately 17 per cent. The increase is explained by the growth in the number of SMSFs and a change in ATO reporting requirements which came into effect at the start of the 2008 financial year. Overall, the percentage of the SMSF population with ACRs, over the 2004 to 2008 audit years, has remained relatively stable at approximately 2 per cent.

Providing loans or financial assistance to members is the most common SMSF contravention, by numerical frequency, comprising 20 per cent of all reported contraventions within the SMSF population. In-house asset and separation of asset contraventions<sup>49</sup> are the most serious contraventions, by monetary value, each representing 26 per cent of the monetary value of the total reported SMSF contraventions (refer appendix 1, table 31).

As at 30 June 2008, the ATO incurred total costs of \$69 million in administering and regulating the SMSF sector.<sup>50</sup> For the same period, the ATO collected \$18.5 million from the SMSF supervisory levy. While data is not yet available on the ATO costs for the 2009 financial year, the amount collected from the supervisory levy increased to \$40.6 million as a result of the increase in the annual supervisory levy.<sup>51</sup>

In the 2009 financial year, the ATO finalised 14,759 compliance activities,<sup>52</sup> representing more than 3 per cent of the SMSF population. These activities included 12,644 audits and reviews; 80 per cent of those audit and reviews resulted in either:

- education of trustees on SMSF requirements;
- guidance to trustees to help them rectify less serious contraventions; or
- significant sanctions.<sup>53</sup>

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49 'Separation of asset' contraventions involve the trustees failing to keep assets of an SMSF separate from assets of other entities.

50 This includes both direct and indirect costs. Direct costs include labour and supplier expenses, while indirect costs are overhead-type costs attributed to the activity.

51 The supervisory levy was raised from \$45 to \$150 from 1 July 2007. However, remittance of the increased levy occurs when annual returns are lodged and this potentially can delay collection. Approximately 87 per cent of 2008 SMSF annual returns have been lodged to date. The ATO is to review the current levy collection arrangements by no later than 30 June 2011 to ensure the levy continues to provide appropriate cost recovery for the ATO's functions.

52 Some of these included activities on reported auditor contravention reports.

53 Compliance results should not be viewed as a reflection of the overall population, rather it is indicative of the ATO's risk-based selection approach.

While the ATO's general approach is to work with trustees to help them rectify contraventions that result from errors or lack of understanding of the rules, regulatory action is taken against those who repeatedly fail to meet their obligations. The proportion of SMSFs that have significant sanctions applied is small (approximately 2 per cent of all compliance activities).<sup>54</sup> In imposing those sanctions, 99 SMSFs were made non-complying<sup>55</sup> and 29 trustees were disqualified (refer appendix 1, table 32).

Additionally, ATO compliance activities identified 15 scheme promoters and 1,055 participants, suppressed 500 SMSFs from 'Super Fund Lookup'<sup>56</sup> because of suspected illegal early access activities and froze 17 bank accounts containing around \$1.5 million.

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54 This does not include raising amended income tax assessments for individuals and SMSFs.

55 When a fund is made non-complying an amount equal to the market value of the fund's total assets (less any contributions the fund has received that are not part of the taxable income of the fund) will be included in the fund's assessable income. This amount is taxed at the highest marginal tax rate, currently 45 per cent.

56 Which is part of the Australian Business Register.

## APPENDIX 1 — DATA TABLES

The following tables are based largely on published statistical data and other unpublished data provided by the ATO. Other data sources have been referenced where used.

**Table 1: Contribution flows**

This table illustrates the total value of contributions to SMSFs during each financial year and the mean and median amounts over those periods, along with contributions by fund size and as a proportion of contributions to all forms of super.

These figures are estimates based on SMSF income tax and regulatory return form data.

### SMSF contributions

	Total contributions		Mean contributions		Median contributions	
	Member (\$m)	Employer (\$m)	Member (\$)	Employer (\$)	Member (\$)	Employer (\$)
2004	7,354	4,892	85,579	29,495	6,902	25,269
2005	8,672	5,055	94,698	29,565	5,164	29,374
2006	13,421	7,732	115,025	42,332	9,794	34,000
2007	57,376	11,319	383,380	57,512	61,604	42,970
2008	23,243	10,464	117,650	50,818	30,000	25,234

### SMSF Member contributions by fund size (per cent per year)

	\$1 - \$50k	>\$50k - \$100k	>\$100 - \$200k	>\$200 - \$500k	>\$500 - \$1m	>\$1m - \$2m	>\$2m - \$5m	>\$5m - \$10m	>\$10m
2004	1.37%	1.21%	3.48%	15.01%	23.73%	24.09%	20.52%	5.84%	4.75%
2005	0.77%	0.85%	2.64%	11.52%	20.35%	24.66%	20.41%	9.24%	9.57%
2006	0.58%	0.60%	2.18%	10.62%	19.36%	24.78%	24.43%	9.16%	8.29%
2007	0.16%	0.17%	0.62%	3.99%	31.66%	23.57%	30.25%	7.80%	1.79%
2008	1.26%	0.80%	2.74%	12.94%	22.34%	27.21%	25.05%	6.26%	1.40%

### SMSF Employer contributions by fund size (per cent per year)

	\$1 - \$50k	>\$50k - \$100k	>\$100 - \$200k	>\$200 - \$500k	>\$500 - \$1m	>\$1m - \$2m	>\$2m - \$5m	>\$5m - \$10m	>\$10m
2004	3.58%	5.12%	12.03%	30.00%	26.27%	16.27%	5.95%	0.66%	0.12%
2005	2.31%	4.26%	10.22%	28.40%	26.92%	18.86%	8.00%	0.74%	0.28%
2006	1.34%	2.62%	7.26%	23.31%	26.66%	23.08%	13.10%	1.89%	0.75%
2007	0.85%	1.64%	4.66%	16.47%	21.86%	24.16%	22.16%	5.55%	2.64%
2008	1.83%	2.31%	6.05%	19.77%	24.86%	23.73%	17.63%	3.25%	0.55%

### APRA contribution data for the whole superannuation system (including SMSFs) (\$m)

	Jun 2004	Jun 2005	Jun 2006	Jun 2007	Jun 2008
Employer	40,320	43,312	49,397	67,287	69,359
Member	18,539	24,728	33,771	98,027	49,771
Other	1,858	605	1,156	1,618	1,296
<b>Total contributions</b>	<b>60,718</b>	<b>68,646</b>	<b>84,325</b>	<b>166,932</b>	<b>120,426</b>

Source: APRA 2008, *Annual Superannuation Bulletin*, APRA Statistics, 10 June 2009.

**Table 2: Rollover flow (into and out of SMSFs)**

This table illustrates the total value of rollovers into and out of SMSFs during each financial year and the mean and median amounts over those periods and by fund size.

These figures are estimates based on SMSF income tax and regulatory return form data.

**SMSF rollovers**

	Total rollovers		Mean rollovers		Median rollovers	
	Inward (\$m)	Outward (\$m)	Inward (\$)	Outward (\$)	Inward (\$)	Outward (\$)
2004	6,244	940	134,736	192,573	47,344	70,000
2005	5,730	1,302	139,317	231,379	39,090	80,603
2006	6,612	1,784	159,449	267,227	42,190	85,000
2007	10,229	3,084	216,192	380,719	64,306	113,827
2008	16,047	4,627	276,166	441,506	89,250	119,898

**Inward rollovers by fund size (per cent per year)**

	\$1 - \$50k	>\$50k - \$100k	>\$100 - \$200k	>\$200 - \$500k	>\$500 - \$1m	>\$1m - \$2m	>\$2m - \$5m	>\$5m - \$10m	>\$10m
2004	2.97%	4.67%	10.86%	27.43%	25.68%	15.99%	8.84%	2.18%	1.39%
2005	1.82%	3.40%	9.28%	23.02%	25.78%	18.08%	12.38%	3.22%	3.02%
2006	1.29%	2.23%	6.79%	20.15%	25.54%	20.12%	16.07%	4.62%	3.19%
2007	0.75%	1.24%	4.16%	13.88%	19.66%	23.51%	21.19%	7.95%	7.65%
2008	1.28%	1.13%	3.94%	15.22%	22.29%	24.43%	21.14%	7.28%	3.29%

**Outward rollovers by fund size (per cent per year)**

	\$1 - \$50k	>\$50k - \$100k	>\$100 - \$200k	>\$200 - \$500k	>\$500 - \$1m	>\$1m - \$2m	>\$2m - \$5m	>\$5m - \$10m	>\$10m
2004	41.90%	4.01%	4.83%	10.59%	13.77%	9.97%	7.83%	2.17%	4.92%
2005	39.02%	2.66%	3.38%	10.58%	9.93%	10.63%	12.16%	3.54%	8.11%
2006	34.16%	2.34%	3.22%	8.42%	10.44%	12.36%	15.90%	8.54%	4.61%
2007	23.79%	1.88%	1.72%	5.51%	8.82%	15.37%	22.24%	10.60%	10.08%
2008	17.38%	1.48%	1.99%	6.56%	12.84%	20.82%	25.78%	10.61%	2.54%

**Table 3: Source of rollovers into new SMSFs (2008 ATO new trustee questionnaire)**

This table illustrates the percentage of trustees who have rolled over other superannuation balances into their SMSF and the super industry sector from which it was rolled over.

Source of rollover*	Total as a % of those who** rolled over existing super into a SMSF
Retail fund	855 51.3%
Industry Fund	683 41.0%
Corporate fund	251 15.1%
Public sector fund	144 8.6%
Another SMSF	94 5.6%
Other	84 5.0%

\* This question allowed trustees to identify the sector(s) in which their superannuation was previously held.

\*\* 1,666 trustees responded to this question.



**Table 4: Yearly SMSF population and asset size**

This table illustrates the number of SMSFs that were established or wound up during each financial year, the overall number of SMSFs and members, as well as the total assets in SMSFs.

These figures are estimates based on SMSF income tax and regulatory return form data.

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Establishments	21,788	16,142	19,803	29,691	30,239	22,547	24,191	44,584	32,498	28,995
Windups	3,462	3,914	4,396	4,650	4,849	5,088	4,923	3,862	4,558	2,310
<b>Net establishments</b>	<b>18,326</b>	<b>12,228</b>	<b>15,407</b>	<b>25,041</b>	<b>25,390</b>	<b>17,459</b>	<b>19,268</b>	<b>40,722</b>	<b>27,940</b>	<b>26,685</b>
Total SMSFs	200,178	212,406	227,813	252,854	278,244	295,703	314,971	355,693	383,633	410,318
Total members	377,130	395,801	427,179	480,191	534,941	568,285	604,333	680,154	721,469	772,299
<b>Total assets (\$m)</b>	<b>69,427</b>	<b>78,393</b>	<b>89,781</b>	<b>105,718</b>	<b>131,526</b>	<b>165,425</b>	<b>209,930</b>	<b>326,413</b>	<b>330,100</b>	<b>332,286</b>

**Table 5: SMSF age (that is, years since establishment) distribution**

This table illustrates the age distribution of SMSFs based on years since their establishment date.

SMSF age by establishment (as at 30/6/09)	SMSF age	Average
In 1st year of establishment	6.8%	
>1 - 2 years	7.7%	
>2 - 3 years	10.7%	
>3 - 5 years	10.9%	
>5 - 10 years	26.3%	
>10 years	37.7%	
<b>Total</b>	<b>100%</b>	<b>8 years</b>

**Table 6: Reason for SMSF establishment (2008 ATO new trustee questionnaire)**

This table illustrates trustee responses as to why they established their SMSF, ranked by relative importance.

Reason selected	Rank 1	Rank 2	Rank 3	Rank 4	Rank 5	Rank 6	Total*	Total as a % of respondents**
Control of investments	1,107	531	307	95	25	6	<b>2,071</b>	<b>86%</b>
For greater flexibility over investment options I believe my SMSF can perform better than previous superfund	273	629	364	177	72	17	<b>1,532</b>	<b>64%</b>
Better tax planning	382	274	329	156	80	42	<b>1,263</b>	<b>53%</b>
To save money on fees	199	163	199	169	95	43	<b>868</b>	<b>36%</b>
Desire to have my family in the same fund	68	127	197	186	104	55	<b>737</b>	<b>31%</b>
To consolidate a number of super accounts	64	126	169	111	75	33	<b>578</b>	<b>24%</b>
Due to recent tax concessions/incentives	66	133	162	119	69	39	<b>588</b>	<b>24%</b>
I retired	59	100	115	101	61	30	<b>466</b>	<b>19%</b>
I became self employed	54	21	36	18	16	6	<b>151</b>	<b>6%</b>
I changed employment	28	20	24	28	13	13	<b>126</b>	<b>5%</b>
I accepted a redundancy	8	7	18	13	11	8	<b>65</b>	<b>3%</b>
To transfer super funds from overseas	5	5	9	3	3	0	<b>25</b>	<b>1%</b>
Other reasons	4	1	8	1	2	1	<b>17</b>	<b>1%</b>
	87	17	19	9	5	3	<b>140</b>	<b>6%</b>

\* This question allowed trustees to select and rank multiple responses.

\*\* 2,404 responded to this question.

**Table 7: SMSF trustee type**

This table illustrates the trustee structure (either corporate or individual trustees) of the SMSF population.

Trustee type	All SMSFs as at 30/6/09	New registrations during 2006/07		New registrations during 2007/08		New registrations during 2008/09	
	%	Number	%	Number	%	Number	%
Corporate	29.1%	6,600	14.6%	3,703	11.2%	3,726	11.5%
Individual	70.9%	38,760	85.4%	29,304	88.8%	28,698	88.5%
<b>Total</b>	<b>100.0%</b>	<b>45,360</b>	<b>100.0%</b>	<b>33,007</b>	<b>100.0%</b>	<b>32,424</b>	<b>100.0%</b>

**Table 8: Types of professional adviser consulted at SMSF establishment (2008 ATO new trustee questionnaire)**

This table illustrates a distribution of trustees according to whom they consulted for advice when establishing their SMSF.

	Total*	Total as a % of respondents**
In consultation with your tax agent/accountant	1,745	72.0%
In consultation with your financial planner/advisor	1,022	42.2%
In consultation with an SMSF administrator	368	15.2%
After recommendations from family or friends	362	14.9%
In consultation with your solicitor lawyer or estate planner	202	8.3%
After seeking information from an industry association	98	4.0%
Without any financial advice or professional support	80	3.3%
Other assistance	86	3.5%

\* This question allowed trustees to select multiple responses.

\*\* 2,423 responded to this question.

**Table 9: Types of professional services paid for by new trustees after SMSF establishment (2008 ATO new trustee questionnaire)**

This table illustrates the types of services paid for by new trustees after establishing their SMSF.

	Total*	Total as a % of respondents**
Preparation of the SMSFs annual return	1,782	73.5%
Ongoing administration of the SMSF	1,178	48.6%
Legal services eg preparation of trust deed	1,175	48.5%
Preparation of your SMSFs investment strategy	847	35.0%
Financial advice regarding fund investments	776	32.0%
Nothing I self administer all aspects of my SMSF	262	10.8%
Other professional services	277	11.4%

\* This question allowed trustees to select multiple responses.

\*\* 2,423 responded to this question.

**Table 10: Number of audits performed by approved auditors**

This table illustrates the distribution of auditors by the number of audits they undertook.

These figures are estimates based on SMSF income tax and regulatory return form data.

No. of audits	2004	2005	2006	2007	2008
1	25.3%	27.8%	30.6%	29.0%	26.2%
2 - 4	24.9%	25.8%	25.9%	24.4%	24.4%
5 - 10	16.5%	15.5%	15.1%	14.8%	14.1%
11 - 25	14.9%	13.5%	12.4%	13.0%	13.6%
26 - 50	9.2%	8.4%	7.7%	8.8%	9.2%
51 - 100	5.0%	4.9%	4.5%	5.2%	6.1%
101 - 250	3.0%	2.8%	2.6%	3.4%	4.1%
> 250	1.2%	1.2%	1.2%	1.4%	2.3%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Note: the years are the financial years of SMSFs being audited and not when the audit actually took place.

**Table 11: Number of SMSFs registered per tax agent**

This table illustrates the distribution of tax agents by the number of SMSFs that are registered with them.

No. of SMSFs registered	Number of tax agents
1	3,164
2	1,588
3	1,056
4	823
5	665
6-10	2,048
11-20	2,082
21-100	3,480
101 - 500	598
> 500	22
<b>Total</b>	<b>15,526</b>

**Table 12: SMSF member age ranges**

This table illustrates the approximate age and gender distribution of members of SMSFs at 30 June 2009, along with the age distribution of members of SMSFs established in the June 2009 quarter.

This is an estimate based on Australian Business Register (ABR) data.

Age ranges	Gender age ranges		Gender age ranges as a proportion of the entire member population		Total	All members of new funds (June 09 Qtr)
	Male	Female	Male	Female		
< 25	1.1%	1.1%	0.6%	0.5%	1.1%	1.8%
25 - 34	4.4%	4.5%	2.4%	2.1%	4.4%	9.8%
35 - 44	13.4%	15.6%	7.2%	7.2%	14.4%	23.9%
45 - 54	25.2%	27.9%	13.6%	12.9%	26.5%	30.4%
55 - 64	33.9%	34.6%	18.3%	16.0%	34.2%	26.6%
> 64	22.0%	16.3%	11.9%	7.5%	19.4%	7.5%
Unknown	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>53.9%</b>	<b>46.1%</b>	<b>100%</b>	<b>100%</b>
<b>All ages</b>	<b>53.9%</b>	<b>46.1%</b>	<b>100%</b>		<b>100%</b>	<b>100%</b>

**Table 13: 2008 APRA account age ranges (for funds with more than four members)**

	< 35	35 - 49	50 - 59	60 - 65	> 65	Total
Corporate	37%	41%	16%	4%	2%	100%
Industry	53%	30%	12%	3%	1%	100%
Public sector	23%	38%	23%	7%	8%	100%
Retail	40%	37%	15%	5%	3%	100%
<b>Total</b>	<b>43%</b>	<b>35%</b>	<b>15%</b>	<b>5%</b>	<b>3%</b>	<b>100%</b>

Source: APRA 2008, *Annual Superannuation Bulletin*, APRA Statistics, 10 June 2009.

**Table 14: 2008 SMSF member age, balances and taxable income, contrasting with non-SMSF member taxable income**

This table illustrates the approximate age and gender distribution of SMSF members, their average and median member account balances, as well as contrasting their average per annum taxable income with the average per annum taxable income of non-SMSF members.

These figures are estimates based on SMSF income tax and regulatory return form data as well as individual income tax return form data.

Age ranges	SMSF Members			Average balance	Median balance	Average taxable income	Non-SMSF members* Average taxable income
	Male	Female	Total				
< 35	5.3%	5.5%	5.4%	\$185,593	\$106,153	\$66,099	\$35,085
35 - 49	26.7%	28.1%	27.3%	\$175,462	\$118,132	\$108,621	\$55,603
50 - 59	30.8%	32.4%	31.5%	\$360,635	\$252,364	\$104,365	\$55,086
60 - 65	20.4%	20.1%	20.2%	\$556,654	\$388,997	\$79,525	\$46,170
> 65	16.8%	14.0%	15.5%	\$660,956	\$450,781	\$63,357	\$40,684
Unknown	0.0%	0.0%	0.0%	n/a	n/a	n/a	\$15,210
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>\$467,453</b>	<b>\$255,030</b>	<b>\$91,736</b>	<b>\$46,740</b>
<b>All ages</b>	<b>53.9%</b>	<b>46.1%</b>	<b>100%</b>				

\* The non-SMSF member population are those individuals, excluding SMSF members, for whom the ATO has received a member contribution statement.

**Table 15: Average and median asset sizes**

This table illustrates the average and median SMSF fund sizes and member account balances at the end of each financial year.

These figures are estimates based on SMSF income tax and regulatory return form data.

	2004	2005	2006	2007	2008
Average per member (a)	\$247,482	\$292,086	\$348,405	\$480,303	\$456,467
Median per member	\$156,798	\$182,273	\$217,962	\$296,699	\$288,356
Average per SMSF	\$476,074	\$561,568	\$668,722	\$918,616	\$858,259
Median per SMSF	\$275,483	\$321,843	\$384,804	\$522,270	\$516,146

(a) The 2008 average per member account balance of \$456,467 is as per the ATO published statistics where the data was extracted in early July 2009. The average has increased to approximately \$467,000 as depicted in table 11 (due to new lodgments) in early September 2009. The timing of when the data was extracted also explains the variance, between this and table 12, for the 2008 median member account balance.

**Table 16: Asset Ranges by fund and member size**

This table illustrates the approximate distribution of SMSF fund sizes and member account balances at the end of each financial year.

These figures are estimates based on SMSF income tax and regulatory return form data.

Per SMSF	2004	2005	2006	2007	2008
\$0-\$50k	14.5%	12.5%	10.6%	8.6%	9.5%
>\$50k-\$100k	10.6%	9.4%	8.0%	6.1%	5.7%
>\$100k-\$200k	16.8%	15.5%	14.0%	11.3%	11.1%
>\$200k-\$500k	28.5%	28.0%	27.2%	24.0%	24.8%
>\$500k-\$1m	17.9%	19.5%	21.0%	21.7%	22.4%
>\$1m-\$2m	8.7%	10.7%	13.0%	17.0%	16.3%
>\$2m-\$5m	2.8%	3.9%	5.4%	9.5%	8.6%
>\$5m-\$10m	0.3%	0.5%	0.7%	1.5%	1.3%
>\$10m	0.1%	0.1%	0.2%	0.3%	0.2%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Per member	2004	2005	2006	2007	2008
\$0-\$50k	28.3%	25.0%	21.3%	16.8%	13.3%
>\$50k-\$100k	17.1%	16.3%	15.1%	12.4%	11.3%
>\$100k-\$200k	20.1%	20.0%	19.7%	17.7%	17.7%
>\$200k-\$500k	22.0%	23.6%	25.3%	26.5%	29.2%
>\$500k-\$1m	8.3%	9.8%	11.6%	15.2%	17.1%
>\$1m-\$2m	3.2%	3.9%	4.9%	7.7%	8.5%
>\$2m-\$5m	0.9%	1.3%	1.8%	3.1%	2.6%
>\$5m-\$10m	0.1%	0.1%	0.2%	0.4%	0.2%
>\$10m	0.0%	0.0%	0.1%	0.1%	0.1%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

**Table 17: Average return on assets (ROA) by fund size**

This table illustrates the average ROA by SMSF fund size. The ROA is calculated by determining the net earnings, and comparing this to average assets during the financial year to determine the percentage return on assets.

These figures are estimates based on SMSF income tax and regulatory return form data.

	\$1 - \$50K	>\$50K - \$100K	>\$100K - \$200K	>\$200K - \$500K	>\$500K - \$1M	>\$1M - \$2M	>\$2M
2006	-1.62%	4.02%	7.19%	9.80%	11.73%	13.34%	15.27%
2007	0.41%	7.65%	10.29%	13.10%	15.15%	17.02%	19.76%
2008	-18.26%	-13.50%	-11.34%	-9.10%	-7.98%	-6.57%	-4.24%

**Table 18: 2008 SMSF asset allocations**

This table illustrates the value and proportion of assets held by the SMSF population for each type of asset listed on the 2008 SMSF annual return using mean and median cases. It follows that SMSFs will have different asset allocations in individual cases.

These figures are estimates based on SMSF income tax and regulatory return form data.

	(\$M)	% of total SMSF assets	% of SMSF population holding those assets	Mean* (\$)	Median* (\$)
Listed trusts	25,392	7.7%	33.2%	194,007	70,000
Unlisted trusts	28,709	8.7%	19.1%	392,903	160,350
Insurance policy	245	0.1%	0.4%	154,335	70,198
Other managed investments	19,211	5.8%	13.8%	358,642	157,792
Cash and term deposits	87,065	26.4%	90.4%	242,152	78,088
Debt securities	2,179	0.7%	3.1%	186,339	62,727
Loans	1,947	0.6%	3.2%	164,010	47,658
Listed shares	106,883	32.4%	63.3%	436,075	200,808
Unlisted shares	3,664	1.1%	8.0%	124,059	32,000
Derivatives and instalment warrants	395	0.1%	0.9%	107,623	44,025
Non-residential real property	30,510	9.2%	12.6%	615,827	385,673
Residential real property	10,758	3.3%	6.5%	418,141	299,949
Artwork, collectibles, metal or jewels	397	0.1%	1.6%	62,736	19,272
Other assets	10,035	3.0%	67.6%	39,304	7,197
Overseas shares	763	0.2%	2.2%	92,722	23,404
Overseas non-residential real property	47	0.0%	0.0%	305,382	160,182
Overseas residential real property	85	0.0%	0.1%	296,511	202,397
Overseas managed investments	294	0.1%	0.5%	172,491	60,992
Other overseas assets	1,522	0.5%	3.8%	105,809	30,138
<b>Total Australian and overseas assets</b>	<b>330,100</b>	<b>100%</b>	<b>n/a</b>	<b>914,814</b>	<b>516,146</b>

\* Mean and median values are only applicable to those funds that held those types of assets.

**Table 19: 2008 SMSF asset allocations by fund size**

This table illustrates the proportion of assets held by SMSFs for each type of asset listed on the 2008 SMSF annual return by fund size.

These figures are estimates based on SMSF income tax and regulatory return form data.

	>\$50k- \$0-\$50k	>\$100k- \$100k	>\$150k- \$150k	>\$200k- \$200k	>\$500k- \$500k	>\$1m- \$1m	>\$2m- \$2m	>\$5m- \$5m	>\$10m- \$10m	>\$10m
Listed trusts	2.8%	4.6%	6.4%	7.2%	8.0%	8.7%	8.1%	7.0%	6.8%	6.0%
Unlisted trusts	2.9%	4.7%	5.8%	6.6%	7.5%	8.0%	8.4%	9.3%	11.5%	11.2%
Insurance policy	0.1%	0.2%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Other managed investments	2.5%	4.1%	5.0%	5.4%	6.2%	6.5%	5.8%	5.6%	5.2%	6.4%
Cash and term deposits	51.1%	42.3%	36.9%	33.7%	28.7%	26.7%	26.3%	25.1%	23.0%	20.4%
Debt securities	0.2%	0.3%	0.3%	0.3%	0.5%	0.6%	0.7%	0.8%	0.7%	1.3%
Loans	1.8%	1.5%	1.0%	0.8%	0.6%	0.5%	0.6%	0.6%	0.8%	1.3%
Listed shares	26.0%	30.6%	31.6%	31.7%	31.8%	32.0%	32.2%	32.4%	33.9%	34.6%
Unlisted shares	2.4%	2.0%	1.7%	1.6%	1.2%	1.0%	1.0%	1.2%	1.4%	2.5%
Derivatives and instalment warrants	0.2%	0.3%	0.4%	0.4%	0.2%	0.1%	0.1%	0.1%	0.1%	0.1%
Non-residential real property	0.8%	2.3%	3.7%	4.8%	7.2%	8.4%	9.8%	10.7%	9.5%	7.3%
Residential real property	0.3%	1.0%	1.8%	2.5%	3.8%	3.8%	3.4%	3.1%	2.3%	2.1%
Artwork, collectibles, metal or jewels	0.7%	0.6%	0.4%	0.4%	0.2%	0.1%	0.1%	0.1%	0.1%	0.1%
Other assets	7.0%	4.4%	4.1%	3.7%	3.2%	3.0%	2.8%	3.1%	3.4%	5.0%
Overseas shares	0.3%	0.3%	0.2%	0.3%	0.2%	0.2%	0.2%	0.3%	0.4%	0.6%
Overseas non-residential real property	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Overseas residential real property	0.1%	0.1%	0.0%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Overseas managed investments	0.2%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.3%
Other overseas assets	0.7%	0.6%	0.5%	0.4%	0.4%	0.4%	0.4%	0.5%	0.7%	0.8%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

**Table 20: 2008 SMSF asset allocations by SMSFs in accumulation and pension phases**

This table illustrates the proportion of assets held by accumulation and pension phase SMSFs, for each type of asset listed on the 2008 SMSF annual return.

These figures are estimates based on SMSF income tax and regulatory return form data.

Asset allocation	SMSFs in accumulation	SMSFs in pension*	All
	phase	phase	SMSFs
Listed trusts	6.7%	8.7%	7.7%
Unlisted trusts	9.1%	8.3%	8.7%
Insurance policy	0.1%	0.1%	0.1%
Other managed investments	5.3%	6.5%	5.8%
Cash and term deposits	26.8%	25.2%	26.4%
Debt securities	0.4%	1.0%	0.7%
Loans	0.6%	0.7%	0.6%
Listed shares	31.2%	34.7%	32.4%
Unlisted shares	1.3%	1.0%	1.1%
Derivatives and instalment warrants	0.2%	0.1%	0.1%
Non-residential real property	10.0%	7.8%	9.2%
Residential real property	4.0%	2.2%	3.3%
Artwork, collectibles, metal or jewels	0.2%	0.1%	0.1%
Other assets	3.2%	3.0%	3.0%
Overseas shares	0.3%	0.2%	0.2%
Overseas non-residential real property	0.0%	0.0%	0.0%
Overseas residential real property	0.0%	0.0%	0.0%
Overseas managed investments	0.1%	0.1%	0.1%
Other overseas assets	0.5%	0.4%	0.5%
<b>Total Australian and overseas assets</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

\* This includes SMSFs that were fully or partially in pension phase.

**Table 21: 2008 asset concentration**

This table illustrates the distribution of SMSFs that have 50 per cent or more of their assets by value invested in one particular asset class. For example, 47.4 per cent of SMSFs hold 80 per cent of their assets in one particular asset class, representing 28.1 per cent of total SMSF assets.

These figures are estimates based on SMSF income tax and regulatory return form data.

Asset concentration*	Proportion of SMSFs	Proportion of SMSF assets
100%	19.9%	5.3%
90%	34.3%	18.0%
80%	47.4%	28.1%
70%	61.1%	37.9%
60%	75.9%	47.6%
50%	90.6%	57.3%

\*An asset concentration of 100 per cent indicates all assets are held within a particular asset class.



**Table 22: 2008 asset concentration by fund size**

This table illustrates, by fund size, the distribution of SMSFs that have 50 per cent or more of their assets by value invested in one particular asset class.

These figures are estimates based on SMSF income tax and regulatory return form data.

Fund size	Asset concentration					
	100%	90%	80%	70%	60%	50%
\$0-\$50k	52.8%	66.8%	76.4%	84.7%	93.0%	98.5%
>\$50k-\$100k	37.3%	54.4%	66.8%	77.8%	88.4%	96.7%
>\$100k-\$200k	28.4%	45.5%	59.2%	71.8%	84.4%	95.1%
>\$200k-\$500k	19.7%	35.9%	49.7%	63.7%	78.2%	92.1%
>\$500k-\$1m	14.3%	27.9%	41.3%	55.9%	72.4%	89.2%
>\$1m-\$2m	11.6%	23.8%	36.7%	51.4%	68.3%	86.5%
>\$2m-\$5m	9.0%	20.4%	33.0%	47.6%	65.0%	84.3%
>\$5m-\$10m	7.7%	19.3%	30.9%	44.4%	62.0%	80.8%
>\$10m	9.9%	21.4%	34.7%	48.7%	62.1%	81.3%

(For example, 84.7 per cent of SMSFs with a fund size of \$50,000 or less have 70 per cent of their investments in one particular asset class.)

**Table 23: 2008 asset concentration by asset class**

This table illustrates, by asset class, the distribution of SMSFs that have 50 per cent or more of their assets by value invested in that asset class.

These figures are estimates based on SMSF income tax and regulatory return form data.

Asset type	Asset concentration					
	100%	90%	80%	70%	60%	50%
Listed trusts	0.5%	1.4%	2.3%	3.1%	4.2%	5.5%
Unlisted trusts	1.1%	2.4%	3.5%	4.6%	5.7%	6.8%
Insurance policy	0.0%	0.0%	0.0%	0.0%	0.1%	0.1%
Other Managed Investments	0.8%	1.9%	2.7%	3.5%	4.4%	4.7%
Cash and term deposits	11.3%	13.6%	15.8%	18.4%	21.7%	25.3%
Debt securities	0.0%	0.1%	0.1%	0.1%	0.2%	0.3%
Loans	0.1%	0.2%	0.3%	0.4%	0.5%	0.6%
Listed Shares	3.6%	9.7%	15.4%	21.1%	27.0%	33.0%
Unlisted Shares	0.2%	0.3%	0.4%	0.6%	0.7%	0.7%
Derivatives and instalment warrants	0.0%	0.0%	0.0%	0.1%	0.1%	0.1%
Non-residential real property	1.0%	2.4%	3.8%	5.1%	6.4%	7.8%
Residential real property	0.4%	1.0%	1.5%	2.1%	2.6%	3.3%
Artwork, collectibles, metal or jewels	0.0%	0.1%	0.1%	0.1%	0.1%	0.2%
Other assets	0.7%	1.0%	1.3%	1.6%	1.9%	2.0%
Overseas shares	0.0%	0.0%	0.0%	0.1%	0.1%	0.1%
Overseas Non-residential real property	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Overseas Residential real property	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Overseas Managed Investments	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%
Other overseas assets	0.0%	0.1%	0.1%	0.1%	0.2%	0.2%
<b>Total</b>	<b>19.9%</b>	<b>34.3%</b>	<b>47.4%</b>	<b>61.1%</b>	<b>75.9%</b>	<b>90.6%</b>

(For example, 15.4 per cent of SMSFs have 80 per cent of their assets by value invested in listed shares.)

**Table 24: Average operating expense ratios to assets by SMSF fund size**

This table illustrates average SMSF operating expense ratios by fund size. The operating expenses of an SMSF are calculated by summing various deduction labels from its income tax return. The total is then compared to its average assets to get a ratio of expenses to assets.

These figures are estimates based on SMSF income tax and regulatory return form data.

	\$1 - \$50K	>\$50K - \$100K	>\$100K - \$200K	>\$200K - \$500K	>\$500K - \$1M	>\$1M - \$2M	>\$2M
2006	5.39%	2.69%	1.92%	1.35%	0.91%	0.70%	0.47%
2007	5.29%	3.35%	2.34%	1.36%	0.86%	0.65%	0.43%
2008	6.42%	5.32%	2.85%	1.50%	0.89%	0.56%	0.36%

**Table 25: Operating expense ratio ranges**

This table illustrates the distribution of SMSF operating expense ratios across various ranges.

These figures are estimates based on SMSF income tax and regulatory return form data.

Operating expense ratio	2006	2007	2008
<=0.25%	23.1%	25.9%	30.6%
>0.25% to 0.5%	14.0%	14.6%	13.6%
>0.5% to 0.75%	10.9%	11.0%	10.1%
>0.75% to 1%	9.0%	8.9%	8.0%
>1% to 1.5%	13.7%	13.4%	12.0%
>1.5% to 2%	8.9%	8.3%	7.7%
>2% to 3%	9.0%	8.0%	7.9%
>3% to 5%	6.2%	5.3%	5.4%
> 5%.	5.3%	4.6%	4.7%
	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

**Table 26: 2008 SMSF audit fees**

This table illustrates average and median SMSF audit fees by fund size. It also distinguishes SMSFs whose auditors performed additional services for the fund and those who only performed the audit service.

These figures are estimates based on SMSF income tax and regulatory return form data.

Auditor provided other services	Average	Median
Yes	\$954	\$594
No	\$608	\$480
<b>Total</b>	<b>\$664</b>	<b>\$495</b>

Note: The data for this table excludes those SMSFs that did not report an audit fee >\$0 in their 2008 Annual Return.

**Table 27: 2008 SMSF audit fee ranges**

This table illustrates the proportion of SMSFs that are within certain audit fee ranges.

These figures are estimates based on SMSF income tax and regulatory return form data.

Audit fee range	% of SMSFs
\$0 to \$499	51.5%
\$500 to \$999	33.5%
\$1,000 to \$1,999	10.7%
\$2,000 and above	4.2%

**Table 28: SMSFs with related party investments (either in-house assets or other related investments excluded from being in-house assets)**

This table illustrates the proportion of SMSFs and SMSF assets that are invested in related parties, as disclosed in either the related party or in-house asset investment labels in SMSF annual returns.

These figures are estimates based on SMSF income tax and regulatory return form data.

	% of SMSFs	% of assets
2004	3.3%	5.1%
2005	3.0%	5.2%
2006	2.8%	5.1%
2007	2.6%	4.7%
2008	2.4%	5.2%

**Table 29: 2008 asset allocations of SMSFs with related party investments**

This table illustrates the estimated asset allocations of SMSFs that have related party investments.

These figures are estimates based on SMSF income tax and regulatory return form data.

	% of assets
Listed trusts	3.2%
Unlisted trusts	39.9%
Insurance policy	0.1%
Other managed investments	2.3%
Cash and term deposits	15.3%
Debt securities	0.2%
Loans	0.8%
Listed shares	15.4%
Unlisted shares	2.0%
Derivatives and instalment warrants	0.2%
Non-residential real property	10.1%
Residential real property	2.7%
Artwork, collectibles, metal or jewels	0.1%
Other assets	7.4%
Overseas shares	0.2%
Overseas non-residential real property	0.0%
Overseas residential real property	0.0%
Overseas managed investments	0.1%
Other overseas assets	0.1%
<b>Total Australian and overseas assets</b>	<b>100.0%</b>

**Table 30: SMSF annual return lodgment rates**

This table illustrates the SMSF annual return lodgment rates by due date and the current lodgment rates for returns due in respect of the four years to 30 June 2008.

	2008	2007	2006	2005
Percentage lodged by the due date	73%	69%	70%	71%
Percentage lodged as at 3 December 2009	87%	93%	94%	95%

**Table 31: Types of contraventions reported to the ATO**

This table illustrates the general type of contraventions that have been reported since the commencement of contravention reporting in 2005 (up to 30 June 2009) by approved auditors to the ATO.

Contravention types	Number %	Value %
Loan to members/financial assistance	19.7%	14.5%
Administrative type contraventions	17.1%	2.7%
In-house assets	16.3%	26.1%
Separation of assets	13.4%	26.2%
Operating standard type contraventions	8.4%	7.2%
Sole purpose	8.1%	8.3%
Borrowing	7.4%	4.9%
Investment at arms length	6.6%	7.4%
Other	1.7%	0.4%
Acquisition of assets from related parties	1.4%	2.3%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

**Table 32: ATO significant sanctions for compliance breaches**

Compliance outcomes*	2007	2008	2009
Funds made non-complying	5	24	99
Trustees disqualified	15	6	29
Formal enforceable undertakings finalised	94	160	131
Funds wound up	0	7	17

\* The increase in the number of compliance outcomes in recent years is primarily due to an increase in the number and intensity of compliance activities being undertaken by the ATO, rather than a deterioration in compliance behaviour.

## APPENDIX 2 — DATA ISSUES

Data limitations and differences in methodologies might impact the analysis of SMSFs and the comparison of SMSF with non-SMSF sectors. These differences could include:

- **Valuation and accounting practices** might lead to incorrect calculations of ROA. In particular, APRA-regulated funds are required to report assets at market value, while SMSFs are only required to do so under certain circumstances.<sup>57</sup> That said, anecdotal evidence suggests that market value reporting is becoming more common for SMSFs — particularly for those funds invested substantially in listed shares, managed funds and cash assets.
- **Treatment of tax** might differ between APRA-regulated funds and many SMSFs.<sup>58</sup> APRA-regulated funds generally make full provision for income taxes on an accruals basis, as do many SMSFs. Again, however, SMSFs are not required to do so and many do not (in which case tax is effectively treated on a cash basis).
- **Pension funds' exemption from income tax on investment earnings** will mean that pension funds have higher after tax returns than an identically invested accumulation fund. Given that SMSFs have a proportionately higher number of member accounts in pension phase, there is a potential for the ROA of the whole SMSF population to be overstated.
- **Under or overstated costs** as cost amounts for SMSFs are determined based on amounts included in the SMSF annual return (that is deductible expenses) rather than the actual expenditure on fund costs. For example such costs could include:
  - **Life insurance and related cover**, where only a portion of the premium is deductible depending on the type of insurance cover.
  - **Opportunity costs** as the cost of the trustee's time and effort in operating the SMSF are not captured. These costs are more likely to be reflected in APRA-regulated funds.
  - **Costs incurred in pension phase SMSFs**, where only a part of an SMSF's total expenditure is tax deductible (because the fund is not entitled to a deduction for expenses incurred in deriving exempt income). Relying exclusively on tax deductible expenses to identify operating costs might understate the costs of pension SMSFs by up to 100 per cent (for an SMSF entirely in pension phase).
  - **Invisible costs** potentially arise when assets are held through an external investment structure, such as a trust or managed investment scheme (**'investment structure'**), rather than directly. Under these circumstances, fees charged by the investment structure will be expensed within the structure and only the net return remitted to the SMSF via distributions. This will not undermine the ROA calculation (because whether the expenses are incurred directly or in another vehicle, the net return to the SMSF is identical). However, the fees charged by the investment structure will not be taken

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57 Historical cost if used over time can significantly misrepresent asset valuations.

58 Tax treatment variances exist within the SMSF population.

into account in operating expense calculations because the calculations only capture expenses actually occurring within the SMSF. This can occur in both SMSFs and APRA-regulated funds.

- **Advice costs**, how (and whether) advice is received and paid for also affects comparisons.
- **Establishment costs**, which are incurred by SMSF members, but due to their capital nature are not deductible or able to be amortised over a defined life.
- **Management Expense Ratios (MER) of public offer funds**, there are a number of other membership features in a public offer super fund that make its published MER figures not directly comparable with the operating expense ratio of an SMSF (such as contribution fees, buy/sell spreads, insurance premiums and exit fees) but a further discussion of these is outside the scope of this publication.



