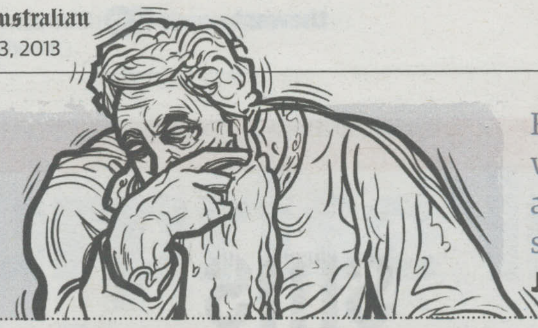

From childhood we have watched as everything our ancestors worked for . . . was squandered on a delusion
Jeremiah 3.24

JEREMIAH

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Long before the famous bullfrog, the weeping prophet Jeremiah foretold disaster. We are not 'profits of doom' but here is **Your Money**'s contrarian view. We hope it saves a few shekels.

Supercharged independence talk can be your undoing

David Huggins

Nearly every day I see advertisements telling people that they should open a self-managed super fund. While it might seem like a good idea there are a few things you ought to think about before you take this step.

You must ask yourself why you are being told about self-managed superannuation at all.

Super can be managed either in a public offer fund, which is a fund managed by a large financial institution, or it can be managed in a self-managed fund.

Financial services businesses such as financial planning firms generate income by charging fees for clients to manage their assets.

For most people, super is their biggest asset aside from their family home so there is intense competition between financial services businesses to get access to that asset.

What all this means is that you need to think about whether advice that you should open a self-managed super fund is actually motivated by a desire to ensure your best interests are taken care of or whether this advice is really more about generating fees for your adviser.

You must seriously consider how likely it is that you will be better off as a result of managing your own super fund.

Since the global financial crisis, many public offer super funds have performed poorly.

This fact is used by advisers to persuade you that you could do better yourself with the assistance of your adviser.

In truth, poor performance by public offer super funds only shows how difficult it is to manage funds.

If highly qualified and experienced people with access to better information than you struggle to manage funds successfully, I don't see how a person without that training, experience and access to information is likely to achieve a better outcome.

You must never forget the very real costs involved in operating your own super fund.

Public offer super funds charge substantial fees. The fees charged reflect the compliance costs that are associated with running a super fund and of making investment decisions and implementing them for the fund.

The fact that public offer funds are expensive is used by advisers to argue that self-managed super funds are better because you will pay lower costs.

The true position is that the costs that you will incur will not be much different. A self-managed super fund is subject to onerous and complex regulatory obligations that are administered by the Australian Taxation Office.

By the time you have paid the fees associated with complying with these obligations, paid your financial planner and other advisers such as accountants for their advice and paid the costs associated with implementing that advice, the overall fees paid by you will not be significantly different.

The fourth is that running a self-managed superannuation fund involves you taking on very significant legal obligations as trustee of the fund. As trustee you are responsible for ensuring that the super fund is operated in compliance with all the tax office's onerous and complex requirements.

If you don't do this, you personally run the risk of being prosecuted for a criminal offence and having a fund held to be non-compliant.

If this happens, you will not be entitled to receive the tax benefits that apply to money paid into the super fund and income earned by the super fund.

One of the tax office requirements is that you have to make sure that your super fund's assets are managed properly.

This means that you have to come up with an appropriate investment strategy and ensure that this strategy is actually implemented.

It is not just a legal obligation, it is an onerous practical obligation.

If your super fund is not managed properly, your position in retirement will be badly compromised.

What this means is that if you are going to have your own super fund you need to constantly consider whether the advice that you are receiving from your adviser is appropriate and constantly ensure that this advice has been properly implemented.

Unfortunately, I have seen a number of people who did not have the skills to run their own super fund who outsourced these tasks to their adviser and then suffered substantial losses.

> Is the advice that you should open a self-managed super fund about . . . your best interests . . . or generating fees for your adviser?

David Huggins is a lawyer who specialises in resolving disputes about poor financial advice.