Getting the best

of both super worlds

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While some may argue for do-it-yourself super and others argue that out-sourcing is the way to go, it's worth remembering that you can benefit from having a foot in both camps, writes Andrew Proebstl.

For some years, a growing number of Australians have decided to set up their own super fund instead of out-sourcing the management of their super to others. During the last financial year the number of do-it-yourself funds grew by seven percent or 26,685 funds[1]. This equates to around 100 new funds every business day of the year.

As a result, self-managed super funds now represent almost one third of Australia's superannuation assets. At 30 June 2009, around $332 billion (31 percent) of Australia's $1 trillion plus super savings was held in self-managed super funds.[2]

This is significant compared to retail funds (28 percent), industry funds (18 percent) and public sector and corporate funds (19 percent). However self-managed super funds still only represent a very small proportion of total member accounts at two percent (779,000) of all 32.7[3] million accounts.

Other super funds such as retail and industry super continue to manage the lion's share of accounts and this is likely to continue as more self-managed superannuants choose to diversify their super fund choice.

Recent research indicates that around 25 percent[1] of self-managed fund members have accounts with other types of super funds such as retail or industry funds. This makes sense because splitting your retirement savings between self-managed and out-sourced super gives you the benefits of both types of funds, including more options to diversify how your super is invested.

For example, setting up your own super fund gives you total control over investment decisions. Some individuals with very high balances may also find the costs of managing their super can be lowered. However you will need to ensure that you have the time to manage your own fund. There are significant compliance responsibilities (and fines and penalties for non-compliance) that come with setting up a self-managed super fund which you remain responsible for, even if consultants help you manage it.

Investing your super in an outsourced fund also has its advantages which are accessible simply by investing a proportion of your assets in your fund of choice. A key advantage of out-sourced super is that you can access death and total and permanent disablement insurance at very competitive group premium rates.

Larger super funds can also access investments at wholesale rates and can invest across the full spectrum of asset classes including international shares, fixed interest securities and alternative assets such as infrastructure and hedge fund investments. These asset classes require access to specialist knowledge and resources that are often beyond many individual investors.

Investing across these asset classes broadens diversification in volatile growth sectors. International shares spread risk and opportunity geographically, while hedge funds spread risk and opportunity to investments that by their nature have a low correlation with the performance of traditional or mainstream investments, for example infrastructure or unlisted property.

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There are other ways that the two types of funds can complement each other. For instance, you may set up a self-managed fund to hold your investment in Australian shares and simultaneously choose to invest some of your savings in an International share investment option with an out-sourced fund.

If you are considering moving to a self-managed super fund or indeed are already managing your own super, keep in mind that you can get the best of both worlds and don't need to lose the benefits that outsourced super provides.

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Footnotes

1. *A statistical summary of self-managed superannuation funds, Review into the governance, efficiency, structure and operation of Australia's superannuation system, 10 December 2009*
2. *Annual superannuation bulletin, Australian Prudential Regulation Authority, June 2009*
3. *Ibid*