rise financial

canberra times: q&a

Q 1: I have $70,000 in super and I currently work in the APS. I want to set up a self managed super fund (SMSF) with this money and with my $500 roughly after tax contribution fortnightly and an additional $500 per fortnight salary sacrifice. With this I want to purchase a property valued at around $450,000. As I need 20% deposit plus costs from my fund this purchase would be a few years away. I am 50 now so assuming I work to 65 I reckon I would be substantially better off at retirement by using my super plus the rent of say, $450 pw in today's dollars to pay off this purchase while keeping about $10,000 in cash for unexpected expenses. I would be the trustee for the fund and would self manage which I am quite capable of and would be an expert by the time of setting up. This means my costs after set up would be the ATO's fees plus the audit costs being around 1.2% of the value of the property when purchased. My latest projection if I stay in the PSSAP is $510,000. My conservative estimate of the property value at retirement and fully paid off would be $700,000 plus I would have the option of keeping the property and collecting the rent as a pension. I currently have a property portfolio of 4 investment properties so I understand this type of investment. What do you think?

B. J., Canberra

A 1: It seems you have thought this out and have a real preference for direct property investing. The ability of an SMSF to now borrow money to purchase an investment property means that this kind of investment strategy is a real option. But there are some risks to make sure you are aware of. Here are some thoughts:

- If you were to use your super funds to purchase this property with a 20% deposit then you would need a loan of some $360,000. At current interest rates of 6% pa this would require repayments of some $21,600 pa just to pay interest only. (More of course if interest rates rise).
- Your after tax super contributions of $500 pfn or $13,000 pa, plus salary sacrifice contributions of $500 pfn or $13,000 pa ($11,050 pa after tax) means you have an income of some $24,050 pa into the fund plus $23,400 pa rent (assuming fully rented).
- This income should comfortably cover expenses of some $10,000 pa for the property and the annual accounting and audit costs, and leave you withy some $15,000 pa surplus, which can be gradually applied to pay off the debt by retirement in 15 years.
- As this all looks good assuming your property is rented out, you would be well served making sure you have a comfortable available cash buffer. So delaying the purchase a number of years seems sensible and necessary.
- While you can borrow to purchase a property in an SMSF, and the attraction is the leverage you can apply in purchasing a sizable investment in your fund, the real benefit is that you are applying a gearing strategy to your investments and you can sell the property during pension phase tax free.

25 Michell Street Monash ACT 2904 • PO Box 6260, Conder ACT 2906 • www.risefinancial.com.au
Telephone 02 6292 0015 • Facsimile 02 6292 0071
ABN 32 194 927 397 • AFS Licence No. 253292

rise financial

canberra times: q&a

- The comparison between the PSSAP fund projected result and that of the property is only useful if you are applying sensible assumptions (ie is the PSSAP fund investment profile targeting “Cash” long term returns or is it targeting ‘High Growth’?).

So, you need to be aware of the additional risks involved when using borrowed money for investment purposes, whether in an SMSF or outside. You also need to be aware of the lack of diversification you would be exposed to ie $450,000 in one property - let alone your other 4 investment properties and perhaps a home - compared with a managed fund portfolio investing in thousands of investments around the world. These components make this a higher risk strategy for your superannuation.

You need to decide whether you want to take the additional risk of borrowed money and lack of diversification to your superannuation nest egg. If you decide you do, and you go in with your eyes open, then hopefully you will do well. Alternatively you can leave the gearing / property strategy to your non-super assets as you have been doing.

Phil Thompson is a certified financial planner and authorized representative of Rise Financial Pty Ltd (ABN 86350987645), AFSL 311718, an Approved Financial Planning Association Professional Practice. Answers should be used as a general guide only and professional advice should be sought before making investment decisions.

Send your financial questions to phil@risefinancial.com.au

25 Michell Street Monash ACT 2904 • PO Box 6260, Conder ACT 2906 • www.risefinancial.com.au
Telephone 02 6292 0015 • Facsimile 02 6292 0071
ABN 32 194 927 397 • AFS Licence No. 253292