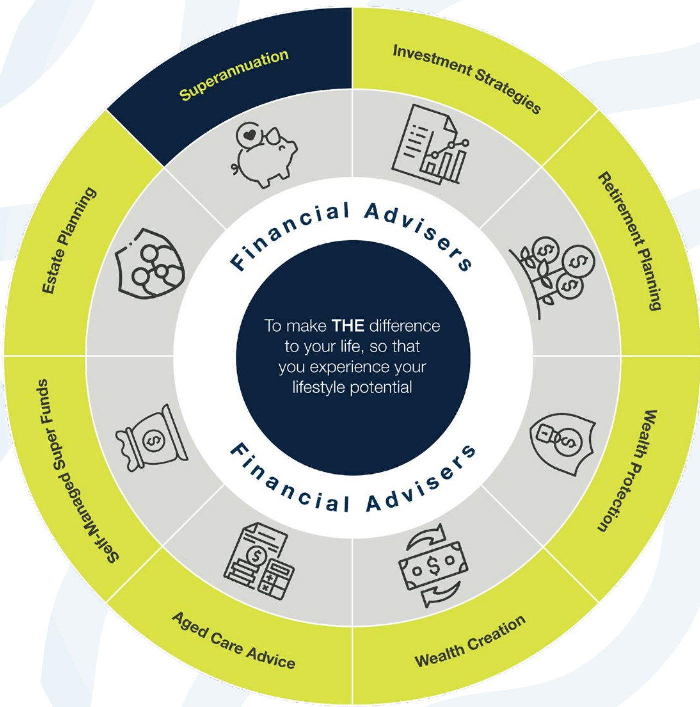
BANKS GROUP

SELF-MANAGED SUPERANNUATION FUNDS

As the name itself suggests, Self-Managed Superannuation Fund means you can manage your super either on your own or with some help from professionals.

Like Spiderman said, “With great power comes great responsibility”. Having an SMSF may provide more choice and freedom to access investment options but, can you do it all yourself or should you get help? And how much do you need to make it viable?

Regulated by the Australian Taxation Office, SMSFs are quite different to industry and retail funds (see supplementary fact sheet; *SMSF Vs. Industry and Retail Funds* for more information).



So, what's so super about self-managed super?

1. More control

With SMSFs, all members of the fund are also trustees and therefore responsible for all decisions. From investment choices and insurance, through to the ability to take a more tailored approach to managing taxation, SMSFs provide the most control of all the superannuation fund options.

Be aware, they are also required to be managed in accordance with relevant superannuation laws. Seeking assistance from accountants and financial advisers to maintain the Trustees' legal responsibilities can be beneficial.

2. More investment choice

Most industry and retail funds allow members to choose from a range of investment options, from conservative to growth; invest directly; or open a super wrap account. However, these options are generally more limited than the ones available to SMSF trustees, who can invest more broadly.

For example, an SMSF can invest in direct property, where as retail funds usually cannot. For many self-employed people, having their SMSF own their business premises can make a lot of financial sense.

3. Ability to borrow

An SMSF fund can borrow money, albeit in very limited circumstances and subject to strict conditions.

For example, a trustee can use a limited recourse borrowing arrangement (LRBA) to fund the purchase of a single asset (or collection of identical assets that have the same market value). These assets must be held in a separate trust, called a bare trust.

If your SMSF borrows money to buy an asset, the interest component of the loan repayments can be tax-deductible to the fund.

4. Lower costs

Industry and retail funds' administration fees are based on a percentage of your super account balance. As your balance increases, so too does the fee.

In contrast, SMSF operating costs (e.g. accounting, audit, and administration fees; annual ATO supervisory levy; day-to-day expenses) are generally fixed. This means the costs normally don't increase, regardless of how much your assets increase or decrease in value.

As your SMSF balance grows, these costs usually become smaller as a percentage of the balance.

We believe that a minimum balance of $275,000 is required before considering if an SMSF is right for you.

5. Pooling super with others

You can consolidate your super with up to six other members, such as your partner or other family members. A larger balance in the superannuation fund plus the power of compounding can increase the fund's investment returns.

6. Estate planning

As an SMSF can have up to six members, it can therefore more simply facilitate the transfer of intergenerational wealth. As a member of an SMSF, your benefits would be paid out to your death-benefit nominees, and if a binding death benefit nomination was in place, proceeds could be paid in-specie, meaning non-cash assets (e.g. property, shares) can be transferred directly to a beneficiary.

Trustee Responsibilities

An SMSF can operate with an individual or a corporate trustee.

Individual trustees - can have two to six members. Each member must be a trustee of the fund. (Some state and territory laws restrict the number of trustees a trust can have to less than six).

Corporate trustee - you can have one to six members, with each member being a director of the company allocated to be trustee.

As an SMSF trustee or director of the corporate trustee, your responsibilities include but are not limited to:

- setting up and managing an investment strategy that meets the risk-tolerance and retirement needs of all members
- comply with tax, super and investment laws and regulations, including the requirement to have your SMSF audited annually and the creation, implementation and review of an SMSF investment strategy
- organise personal insurance for fund members (e.g. life, TPD and income protection) as required.

If you don't have the required time, knowledge, and / or skills, you can outsource many of these responsibilities to SMSF professionals.

Things to consider

Because SMSF trustees are responsible for all the decisions of the fund, there are inherent risks in running one, including:

- you're personally liable for the fund's decisions — even if they're based on professional advice or another trustee made the decision
- your investments may not generate the returns you expect
- running an SMSF can be time-consuming.
- if you run afoul of the law, you could face significant penalties
- a relationship breakdown between members or the death or illness of a member may adversely affect the fund.

Get expert advice

Not sure if an SMSF is right for you? Your level of knowledge will determine the amount of professional help you'll require, which in turn will determine the cost-effectiveness of the SMSF.

A financial adviser can help you do the maths and decide whether an SMSF would be cost-effective for you.

Contact us for a complimentary consultation at info@banksgroup.com.au or +61 3 9810 0700.

Complete financial care is a phone call away:

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