

7 THINGS you need to know about SELF-MANAGED SUPER FUNDS

1. What is a self-managed super fund?

A self-managed super fund (SMSF) is a superannuation fund with a maximum of four members who act as the fund's trustees and direct its investment strategy, giving Australians the chance to take a more active role in planning their retirement.

SMSFs represent the fastest growing sector of the superannuation industry, representing 99% of all super funds and controlling 33% of the \$1.6 trillion invested in super. Australia now has more than half a million SMSFs, with the average SMSF balance being over a million dollars.



2. The advantages of a self-managed superannuation fund

For most Australians, superannuation is one of their most important assets, usually only coming second to the family home. Superannuation is a great way to plan for your retirement, offering you a lot of tax breaks and ensuring that you are putting money aside for the future you want.

However, it can be unsettling when you do not know exactly where and how this crucial asset is being invested. It is natural to want to have more control over your super, and to understand exactly where your money is invested.



Unfortunately, many industry, retail and corporate funds can be very vague in letting you know where your money is, for example simply saying 'Australian shares'. Additionally, the choice of risk categories offered to members are often not specific enough to fully reflect your individual investment needs.

Starting an SMSF is not just about choice, but also control. You can create a more sophisticated investment strategy that is perfectly aligned with your risk appetite, ensuring that your money is doing precisely what you want it to do.

Recently, it has become possible for SMSFs to borrow money in order to purchase property. This means that when members reach pension age, they will be able to take control of the property, something that is not possible in other types of funds.

SMSF members also have a greater degree of control over the tax liabilities of their superannuation, and there are many effective tax minimisation strategies available to SMSFs.

There are also some advantages that are specific to business owners. Under some specific circumstances, your SMSF can even purchase your business premises, and the business can, in turn, lease the property from the SMSF.

WEALTH
JOURNEY



Liability limited by a scheme
approved under Professional
Standards Legislation.

Australia Square

Level 48, Suite 4802,
264 George Street,
Sydney
TEL (02) 9235 0066
FAX (02) 9235 3882

EMAIL

admin@wealthjourney.com.au

WEBSITE

www.wealthjourney.com.au

Financial Planning

Property Investment

Self-Managed Super Funds

3. The responsibilities of being an SMSF trustee

In the world of SMSFs, as with many things in life, increased freedom comes with additional responsibilities. As an SMSF trustee, you will be liable for all of the activities of the SMSF. This might sound daunting to some, but with the support of professional advice the risk of breaching compliance is significantly reduced.

The most important thing is ensuring that the activities of your SMSF meet the sole purpose test. This means that the only motive behind the fund's investment strategy can be to provide for its

members retirement. Every year you will need to lodge certain documents, and you will need to appoint an independent auditor to do at least some of this.

While it is not a legal requirement, a trustee should aim to have a certain degree of knowledge about the current financial and economic environment, to help you better understand your investment strategy. Of course, you can always seek professional advice in this area.



4. Investment options

An SMSF can invest in almost anything, provided that it does not compromise the sole-purpose test and is aligned with the fund's investment strategy. One thing that your SMSF cannot do is invest in anything that may provide direct financial benefits to its members, or any related parties, such as family members. Australian shares, property and cash assets, such as term deposits, are the most popular assets classes for SMSFs, constituting approximately two-thirds of all SMSF assets.

In some circumstances, it may even be possible for SMSFs to invest in less-traditional assets, such as art, sports teams or racehorse syndicates (although such investments are subject to strict compliance requirements).

5. Determining your investment strategy

The ability to set your own investment strategy is one of the biggest draws of starting an SMSF. The first decision you should make is what level of risk you want to take on. Usually this decision will be influenced by how close the members are to retirement age.

You should also aim to have a degree of diversity across your asset portfolio, to protect the fund from any severe fluctuations. You also need to consider your liquidity; that is how fast the

fund's assets can be turned into cash.

The extent to which you and the other members of your SMSF, are planning to rely upon superannuation to provide for your retirement is also key to your investment strategy.

For example, if your personal assets are significant you may feel comfortable taking on a higher degree of risk when investing your superannuation.

6. How much do you need to start an SMSF?

The amount of super that you need to start an SMSF is entirely dependent upon your specific circumstances, and the reasons you have for wanting to take a more active role in managing your retirement.

As a general rule, it is advisable to have enough super to make the annual administration costs of running an SMSF proportionately equivalent to what you would be paying in a retail or industry fund (around 1-1.5%). However, there is a lot of variability within SMSF administration costs, and for some individuals paying a higher rate of fees may be a worthwhile trade-off. For example, if you currently have a low super balance but your income has increased, then it might be in your interests to start an SMSF now, with the knowledge that your balance will increase rapidly.



7. Choosing the other members of your SMSF

It is possible for you to be the sole member of your SMSF. However, if you pursue this path then you will need to have another individual or a legal entity sign on as a second trustee. Four is the maximum number of members that an SMSF can have, however, the majority of funds have two members. The advantage of having more members is that your administration costs will be reduced proportionately.

It is common for married couples or de facto partners to start

an SMSF. The advantage of this is that you will likely have similar goals for your retirement, making the development of an investment strategy much simpler. Many people also form SMSFs with other family members.

However, you can start a fund with almost anyone (but not someone who is your employee). There are also restrictions on people who have been convicted of certain offences, or are in particular financial circumstances (for example an undischarged bankrupt).