

Self Managed Super – Self Managed Superannuation Funds

For individuals seeking to own direct investments within superannuation or gain greater control of their superannuation portfolio, Self Managed Superannuation Funds (SMSFs) can be an attractive alternative.

Benefits

- **Direct investment choice** - You can invest directly in your own chosen combination of investments, for example, shares, property, fixed interest investments, managed funds and cash. You may also include property such as business real property (commercial property).
- **Access to wholesale managed funds** - You may gain the benefit of access to wholesale managed funds where the investment charges are lower than retail managed funds.
- **Consolidation** - You have the ability to have up to four members in a SMSF. You are therefore able to combine your superannuation benefits into one strategy which may reduce ongoing costs and increase the potential for compounding capital growth.
- **Tax planning** - You have the ability to reduce taxation liabilities within the fund by selecting a tax effective mix of investments, including franked dividends. Investment earnings are subject to tax at a maximum rate of 15%.
- **Estate planning** - SMSFs provide estate planning opportunities where there is more than one member in the fund.
- **Non-lapsing binding nomination** - A member of a SMSF is able to have a non-lapsing binding nomination which allows them to specify how their benefits are to be distributed on their death.

How it works

SMSFs can facilitate all major superannuation functions including:

- accepting new superannuation contributions
- consolidating superannuation funds received from a change in employment, and
- paying retirement income.

Members

A SMSF must have up to four members. No member is allowed to be an 'employee' of another member unless related.

Cost considerations

The costs associated with establishing a SMSF may include:

- the preparation of a trust deed including updates following legislative changes
- in the event of a corporate trustee, the costs of establishing and using this framework
- the costs of using and establishing the administrative framework and,
- the accounting, audit and ongoing administration of the fund.

Establishing the trustee/s

The trustee is responsible for compliance with a range of investment related requirements including:

- the investment strategy covenant

Important: This document contains general information about the benefits, costs and risks associated with certain product classes and strategies. It has been prepared without taking into account your objectives, financial situation or needs. Because of this you should, before acting on any advice in this document, consider whether it is appropriate to your personal circumstances.

- various restrictions on investments and benefits including those related to:
- lending to members or their relatives
- acquiring assets from members or their relatives
- in-house assets
- arms-length transactions
- borrowing by the fund
- member reporting obligations
- contribution standards, and
- benefit payments standards.

While trustees may outsource certain functions to external service providers, such as a fund administrator or an accountant, the ultimate responsibility and accountability for the fund always lies with the trustees.

The trustee of a SMSF can be a corporate trustee (ie a private company) or individuals who are members of the fund.

Where the trustees are individuals, the trustee arrangements must be (subject to limited exceptions):

- all members must be trustees, and
- each individual trustee must be a member.

This arrangement promotes true self management of the fund by ensuring all the members have the opportunity to be involved in making decisions that directly affect their superannuation.

A SMSF may have a corporate trustee providing:

- each director of the company is a member of the fund, and
- each member of the fund is a director of the company.

Single member funds

Where a SMSF has only one member, that person may elect to have a corporate trustee. In this case, the member must:

- be the sole director of the trustee company or;
- there can only be two directors of the trustee company.

However the single member:

- must not be an employee of the other director of the trustee company, or
- must be related to the other director of the trustee company.

Alternatively if the single member fund does not wish to have a corporate trustee, the fund must have two individuals as trustees. One of the individual trustees must be the member along with:

- any other person provided the member is not an employee of that person selected to be the other individual trustee, or
- any other person who is a relative of the member.

Establishing a trust deed

A trust deed is commonly referred to as 'the governing rules of the fund'. A trust deed is a legal document that establishes the existence of the fund and rules regarding its operation when it is properly executed.

Trust deeds are available from:

- a solicitor
- an accountant, or
- a specialised SMSF service provider

The major clauses of a trust deed will normally address:

- the establishment of the fund
- the structure and purpose of the fund
- details of who can be a trustee
- how to appoint and remove trustees
- the decision making powers of the trustee
- who can be a fund member
- who can make contributions
- when to pay benefits to members
- ability for the fund to take insurance on the lives of members
- members' benefit entitlements
- what investments the fund can make
- fund records, audit requirements, disclosure and reporting requirements, and
- the appointment of actuary, auditor and managers.

When are SMSFs appropriate?

A SMSF is most appropriate for investors who:

- prefer to have direct control over their retirement funds
- wish to be involved in investment decisions, and
- wish to gain from the flexibility and estate planning benefits associated with SMSFs.

SMSF members must be prepared for the responsibilities associated with being a trustee of a regulated superannuation fund. Members who are prepared to pay for outsourcing much of the administration and investment management of the fund will not need to commit as much of their own time to the fund but will need to be prepared to pay the associated fees for these services.

What level of support is appropriate?

While all SMSFs feature direct investment discretion you can choose the extent of administration support, investment reporting and compliance. Broadly speaking you may choose from:

- a professional administration service for all services required in conjunction with the use of a financial adviser for investment decisions and other key decisions such as commencing a pension, contributions to and withdrawals from the fund, and
- an accounting firm for compliance and tax returns in conjunction with the use of a financial adviser for investment decisions and other key decisions such as commencing a pension, contribution to and withdrawals from the fund and then completing the trustee responsibilities yourself.

From your perspective, the major difference between these options is who is responsible for the prudent management of the fund.

The Superannuation Industry (Supervision) (SIS) legislation codifies some of the most important fiduciary duties of trustees in formal covenants. The codified duties exist alongside trustee duties under common law. For trustees, SIS means their basic duties are clearly spelt out. For members, SIS establishes statutory rights to civil action for loss or damage due to breach of covenants.

Risks and Consequences

Cost barriers

- A typical SMSF is expected to have ongoing costs in a range of \$2,000 to \$6,000 pa. The cost varies depending on the complexity of investments and level of outsourcing.
- Upfront costs in establishing the fund are estimated to be between \$1,000 and \$5,000.
- Additional costs may also be incurred upon winding up a SMSF.

Legal and compliance obligations

- Although as a member/ trustee, many responsibilities can be outsourced, the ultimate responsibility remains with the trustee. Non-compliance can result in fines and /or imprisonment.

Expertise and performance

- A high level of flexibility in investment choice requires sound knowledge and experience on behalf of the members/ trustees.

Time consuming

It is reasonable to expect a SMSF will take up a considerable more amount of time for the member than alternative superannuation fund offers.

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