



Self Managed Super Funds

or

Do It Yourself Super Funds

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The SMSF sector is the largest superannuation sector by number of funds and asset size. As at 30 June 2009, there were around 410,000 SMSFs, representing 99 per cent of all superannuation funds, with over \$332 billion or 30.9 per cent of total superannuation assets (\$1.08 trillion). The sector has about 772,000 members, which comprises about 7 per cent of the roughly 11.6 million members in Australian superannuation.

The SMSF sector has reached its leading asset size position in the superannuation industry, surpassing the retail sector in 2009, through rapid growth in recent years, increasing from \$132 billion to \$332 billion in the five years to 30 June 2009; an annualised growth rate of 20 per cent. (Source: <http://www.supersystemreview.gov.au>)

What is a Self Managed Super Fund?

Self Managed Super Funds (SMSFs) are superannuation funds with no more than four members with all of the members being trustees with full involvement in the fund's decision-making process.

Each fund has its own trust deed drafted to meet the needs of its members, rather than those of hundreds or thousands of others.

Each fund has its own investment strategy tailored to suit the members. Contrast this to a retail fund where the members only choice may be selecting between balanced, conservative, aggressive and the like.

Complete control is the major advantage of a SMSF as fund members select the investment assets and monitor the investment performance.

What are the advantages of a Self Managed Super Fund?

The number one reason is control. You decide where your superannuation money is invested. You have direct access to the information telling you how your fund is performing.

Cost is another reason.

- If you deposit money into a public offer super fund you will pay between 2% and 4% as an entry fee (on a \$50,000 deposit this cost is between \$1,000 and \$2,000). This cost will be repeated every time you put money into the fund. A SMSF costs about \$600 in total to set up – a once only cost.
- Retail funds also charge an ongoing “annual administration” fee. According to the Australian Institute of Superannuation Trustees, the average fee is 2.13% of the funds held. On an account balance of \$75,000 this is about \$1,600 each year, and increases as the members benefit increases. In contrast, a SMSF's annual cost could be less than \$1,000 per year regardless of the amount of money invested.

This doesn't take into account the time taken by the trustees to manage their SMSF. However, depending on your approach to investing, this need not be very time-consuming. Investing in a selection of blue chip shares and managed funds purchased through a broker incurs minimal fees and charges, and ongoing management is limited to checking the bank statements for dividends received.

Flexibility in regard to the timing and size of contributions, as well as the “portability” of the fund also give SMSF's an edge. The fund's investment portfolio can be constructed in the way most accurately reflecting your specific needs, objectives and risk profile. The fund can then go with you regardless of how your employment situation changes.

Investments do not have to be sold or redeemed on retirement. Instead the assets can simply be transferred to the member in satisfaction of a lump sum pay out, or the fund can be restructured into an allocated or complying pension fund (for one or more members).

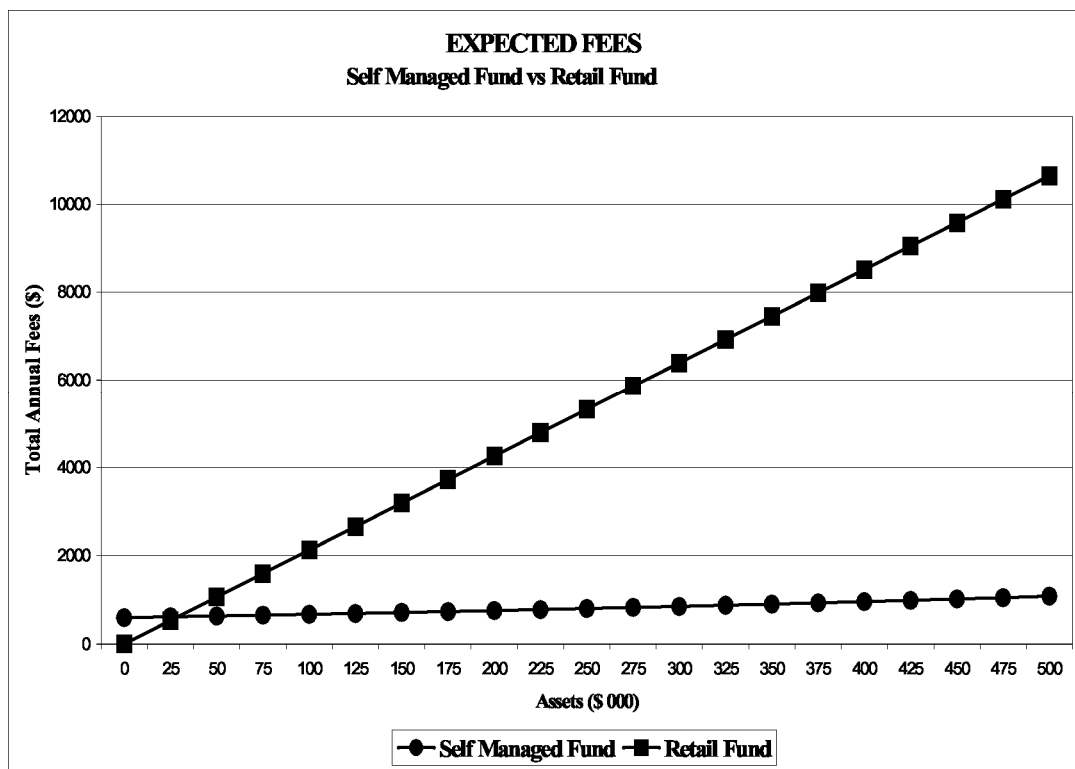
The 15% tax rate applies to all super funds on contributions and investment earnings. However, the inclusion of shares paying fully franked dividends in the investments of an SMSF not only reduces or eliminates the tax payable on investment income, but also on contributions. In other words, with the right investment mix, your super fund could pay much less than 15% tax. Public offer funds can not do this.

So What Is the Down Side?

Responsibility. You, as trustee, take on the legal, administrative and investment responsibility for the fund. While some of this responsibility can be shifted to your accountant and investment adviser, a self managed super fund will always require more involvement on the part of the individual investor than other superannuation alternatives.

A common feature of many SMSF's is the lack of diversification in their investments. Unlike a public offer fund where your money is pooled with that of a great many others to be invested widely, most self managed funds invest directly and it can take several years of contributions to build up a diversified portfolio.

Cost can also be a factor. Because the cost of managing a self managed fund is relatively fixed regardless of the amount of money invested in the fund, small account balances incur almost the same costs as large balances. Annual administration charges of most retail funds are a percentage of the funds invested, so that small balances incur less fees than do large balances. This is illustrated below where the retail fund has an administration fee of 2.13% per annum on funds invested:



In our experience, a self managed fund is not cost effective to administer unless you have \$50,000 to \$60,000 and above in the super fund. If you start your own SMSF, then you should aim to have at least this amount invested within the first couple of years.

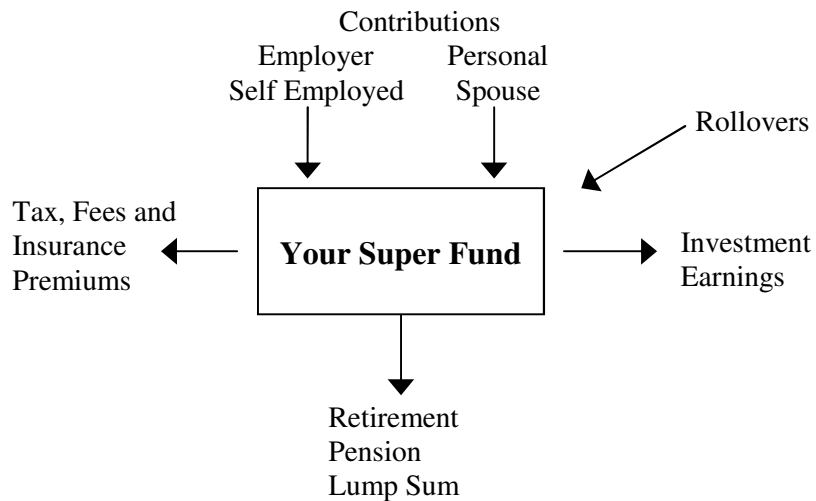
As assets rise above this level, the self managed fund becomes increasingly cheaper when compared with the managed fund. Investing the savings on administration fees over a long term will substantially increase the funds available on retirement.

Summary of Major Differences Self Managed Super Fund vs Retail or Public Offer Funds

	Self Managed Super Fund	Public Offer Fund
Control over investment strategy	Full	Minimal
Investment Choice	Full	Minimal
Ongoing Fees and Charges	Fixed regardless of amount invested	Generally a percentage of the amount invested
Contributions	Size and timing dependent on members	Generally commit to a fixed amount each month or year
Responsibility	Full – although can involve your accountant and investment adviser	Minimal
Tax Concession	Same as for public offer fund	Same as for self managed fund
Investment Diversification	Can be a problem, particularly early in the fund's life	Easy to achieve
In Specie Contributions	Business Premises & Marketable Securities	No
Minimum Account Balance	Only cost effective for balances greater than about \$50,000	None
Portability	Receive contributions from anywhere	Often limited

How Does It Work?

A Self Managed Super Fund works in exactly the same way as any other super fund, except that you will do some of the work.



Things that you will need to organise or consider include:

Establishment of the Fund

- Members – as mentioned above, SMSF's can have no more than four members. In addition, the members must also be related through family ties or be employees of a member.
- Trustees – either all members of the fund must be trustees or a company must be appointed. Whilst the management and legal requirements of a SMSF are relatively simple, the trustees must be aware that they are legally responsible for all actions of the fund.
- Trust Deed – this is the legal document governing the operation of the fund. It sets out the specifics of what can and can not be done within the fund and procedures to be followed. We can arrange for everything you need to set up your self managed fund for \$950 plus GST.
- Make an election with the Australian Taxation Office and obtain an ABN.
- Investment Strategy – all funds are required by law to formulate and subsequently follow an investment strategy which has regard to:
 1. The objectives of the fund.
 2. The risk and likely return of investments.
 3. Diversification.
 4. Liquidity of investments with regard to the ability of the fund to meet its existing and potential liabilities.
- Note that these requirements are not difficult to achieve and we will help you formulate an appropriate investment strategy. Most strategies can accommodate quite a variety of investments.
- Open a bank account in the name of the fund.
- Arrange for the transfer of your contributions into the bank account and/or the rollover of benefits from other funds.
- Invest funds in line with your investment strategy and advisers recommendations.

Ongoing Management

- Keep records of investments, contributions, fund earnings and expenses. These documents must be kept for 10 years.
- Have an annual set of accounts prepared along with a tax return and audit of the fund. We currently provide this service to about 350 funds. The cost varies according to the complexity of the fund and its investments, but would generally be between \$1,000 and \$1,500 each year.
- Make contributions to the fund.
- Make investments on behalf of the fund.

What Could My SMSF Invest In?

To some extent this is linked to your investment strategy, which in turn is dependent on the situation of the fund members. So, the answer to this question is very much dependent upon the members of the fund.

Common types of investments include:

- Australian Shares
- International Shares
- Managed Funds
- Property Trusts
- Fixed Interest
- Business Premises & Land

Less common types of investments, which are definitely not for every fund, but are acceptable in the right situation include:

- Vintage cars and planes
- Stamp collections
- Art work
- Thoroughbred horses
- Wool

Please talk to your adviser before allowing your super fund to purchase any “exotic” investment.

How Do I Decide What To Invest In?

Talk to your adviser.

Although you, as trustees of your SMSF, have undertaken to make the investments on behalf of the fund, you do not need to make the investment decisions alone.

The ultimate decision is yours, but bearing your investment strategy in mind, your accountant or investment adviser can guide you through the alternatives and make specific recommendations as to what your fund should invest in.

The aim should be to diversify across the different asset classes (ie shares, property, interest, etc) as well as within each of the classes (eg for shares – banks, resources, retailers, etc). Diversification reduces the fund’s investment risk – “don’t put all of your eggs in one basket”.

Can My Super Fund Own My Business Premises?

Yes.

There are two basic alternatives for putting your business premises into your super fund.

The first requires that your super fund have sufficient cash available to buy the premises. A super fund cannot borrow money, so it must either have the funds available or you must be in a position to contribute sufficient cash to purchase the building.

If you currently own your own premises it is possible to “contribute” in specie the premises to your fund. That is, you transfer the ownership instead of making a cash contribution. You receive a tax deduction for the market value of the business premises (subject to Age-Based Limits). Stamp duty must still be paid on the transfer.

As your new landlord, your super fund will charge you normal commercial rent for use of the premises and you must physically pay this bill. Failure to do so jeopardises the tax concessional status of your fund.

Can I Transfer Other Assets In To My Super Fund?

Also yes.

But, apart from your own business premises, this is limited to marketable securities – listed shares and property trust units.

This does present an opportunity to gain a tax deduction for contributions without you actually having any money to put into the fund.

Watch out for capital gains tax though! Transferring the shares is a disposal at their market value, so any gain made will be subject to capital gains tax.

How Will I Get My Money Back Out?

Once again, this is no different to any superannuation fund.

If you have met one of the criteria to receive your benefits, such as retirement, you will apply to receive your benefit as either a lump sum or pension or combination of the two.

Unlike retail funds, there is no need to roll over the benefit to another company or product to start your pension. Your fund will simply restructure, perhaps convert some of its assets into a more liquid form, and commence paying you a pension. A pension fund does not pay any income tax on capital gains or investment earnings, and the pension you receive may carry a 15% tax rebate.

What Do I Do Now?

For people with reasonable superannuation savings (or those with the ability to make substantial initial contributions) a self managed super fund represents a highly tax efficient, cost effective and flexible investment vehicle. It offers complete control of your investments and is easy to set up and administer.

So:

1. Find out how much you already have in superannuation, both in employer and personal funds.
2. Consider if you are:
 - Someone wishing to choose how your superannuation funds are invested
 - Have a reasonable amount already in superannuation
 - Will be contributing large amounts into superannuation in the next few years
 - Are self-employed or run your own business
 - Are receiving significant separation benefits upon changing jobs or retrenchment
 - Receive superannuation contributions from a wide range of employers
 - Commencing semi-retirement, but will continue to work on a part-time basis
3. Consider whether or not you want the responsibility of running your own fund.
4. If you would like to know more about self managed superannuation funds or would like assistance in setting one up, please contact our Naracoorte office on (08) 87621544 or Bordertown on (08) 87521300.

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