

## ***Self Managed Super Funds – Doing it Yourself***

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The catalyst for me to investigate the option of a SMSF was looking at approximately \$150k in 3 places as a result of 3 changes in employment by my husband and me. I had money in 2 super funds and there was significantly less in value than my contributions. My husband had been in an employer defined benefit fund and after leaving did nothing but left it in cash. He has never failed to point out he had actually made money where I had the industry experts working for me and still managed to go backwards; a long way backwards

There are 3 main areas which I would like to share with you as a result of my research and decision to set up a SMSF:

- Important things you must consider
- Pitfalls to avoid
- Costs – time and money

You don't need to take notes this speech will be on my website to download and you can get a business card from me with the website details on it.

- 1 Firstly - Important things you must consider
  - a How much money do you have available?

It is generally thought that there should be at least \$200,000 in super to make the costs of a SMSF competitive with other super alternatives. I rolled in \$150,000 knowing that Super Choice was coming in within about 12 months. And I think you can start looking at it at \$100k.
  - b Do you have the ability to manage investments?

Do you have skills in understanding shares, residential or commercial property or any of the other investments you are considering? I also kept some money in one of the super funds to keep my account live so that I could invest in overseas shares through one of their portfolios.
  - c Do you have the time to look after your investments ?

It took me about 2 months to get all of the money invested and that was at a favourable time in the share market. I had to set up online trading accounts linked to bank accounts . I now make sure I put aside some time each month to look at the investments and the alternatives.

- d Do you need a wider choice of investment options or will you merely be trying to duplicate what a super fund would do for you?
- e Do you want more flexibility in terms of making contributions for your spouse or yourself than is currently available?
- f Do you understand the requirements of a SMSF and do they fit your purpose?
  - i Legal trust is required

? Trust with an TFN, ABN and trust deed

The first thing you need to do is to have a trust deed prepared which evidences the existence of the trust and establishes the rules of operation for the fund. An accountant, solicitor or legal service company may prepare the deed. You should ensure that the deed is correctly drafted to achieve the fund's objectives.

The trust deed may set out the following:

- details of who the trustees are;
- how trustees may be appointed or removed;
- the powers of trustees;
- eligibility for membership;
- conditions relating to acceptance of contributions;
- conditions for payment of benefits to members;
- procedures for winding up the fund;
- provisions relating to valuation of assets.

The deed must be dated and properly executed

? Less than 5 members and cannot be employees (unless family) or minors

? All members are trustees

Your responsibilities as a trustee include:

- lodging an annual income tax return and superannuation fund annual return
- lodging Superannuation member contributions statements (MCS)
- reporting payments of member benefits
- appointing an approved auditor to complete the annual audit
- maintaining records for up to 10 years, and
- complying with investment restrictions.

? Elect to become a regulated fund

A trustee must elect to be 'regulated' under SISA if the fund wishes to receive concessional taxation treatment. The trustees of a new SMSF must within 60 days after establishment of the fund give the Regulator a notice of election to be a regulated superannuation fund.

- 2 Secondly - Pitfalls to avoid
- a Must make sure you have an investment strategy and that you follow it
  - b Make sure all the contributions are allowable
  - c The assets and money in your fund are strictly for retirement benefits only – called the sole purpose test. You can't get a benefit now, e.g. buy a holiday home and then use it or have access to the money.
    - i Assets - The assets of the fund should be kept separate from any assets owned personally by any of the trustees or from those belonging to a business (where partners in a business set up the SMSF).
    - ii Separate bank account - Trustees should open the fund's bank account (or other appropriate investments) in the name of the fund.
  - d Do not lend/buy or sell to related parties except in very specific circumstances.
  - e Keep proper records
  - f A SMSF cannot borrow
  - g Look at the areas currently covered by your Super fund and make sure you adequately cover these e.g. Death and disability insurance
  - h May need to be registered for GST if income exceeds \$50K (but this does not include contributions, dividends, sale of assets etc)
- 3 Costs and benefits.
- Make sure you understand the returns and costs associated with your current fund and any alternative you are considering.
- a Most super funds charge management fees of between 1.85% to 2.25%, which on \$200k is \$3,700 and \$4,500 pa and there may be roll in fees.
  - a The one off set up costs in relation to my fund were \$500 to an accountant for corporate trustee formation \$500 (no stamp duty in NSW)
  - b The ongoing annual costs are \$1245 pa
    - i Audit & Tax return \$900
    - ii Bank fees \$300pa.
    - iii SMSF Supervisory Levy \$45
  - c Other costs include Death or Disability insurance. I kept a small amount in one of my previous funds to cover a \$500,000 sum insured – death benefit which costs \$312 pa.

The point I would like to leave you with is - As a person's super fund is likely to be the 2nd largest investment of their life (after the family home) it is really important if you are going to do it yourself to do your research and keep re-evaluating your investment strategy each year.

ATO Super homepage:

[http://www.ato.gov.au/super/pathway.asp?pc=001/007/040&mfp=001/007&mnu=1869#001\\_007\\_040](http://www.ato.gov.au/super/pathway.asp?pc=001/007/040&mfp=001/007&mnu=1869#001_007_040)

*Please note that this information is general in nature and should not be relied upon as professional advice. For advice regarding your particular circumstances you should consult your accountant or financial adviser.*

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