Pathways to Success

The informative private newsletter for those who have decided to take control of their life through education and the application of success habits.

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THE GROWTH OF SELF-MANAGED SUPER FUNDS (SMSFs)

Self-managed Superannuation Funds (SMSFs) have become extremely popular over recent times. One of the main drivers of this popularity has been the fact that these funds provide individuals with greater control and flexibility over how their superannuation benefits may be invested.

The number of SMSFs has increased from approximately 70,000 in 1994 to nearly 332,000 in 2006[1]. Over the same period, the total value of funds under administration has increased from an estimated $12.1 billion to $234.4 billion. These numbers alone confirm the significance of the SMSF industry to the overall superannuation environment.

SMSFs may suit people who have the capability and interest in playing an active role in decisions about the assets underlying their superannuation interest (subject to compliance with investment restrictions).

WHAT IS A SELF-MANAGED SUPER FUND?

In essence, a self-managed superannuation fund is one in which the member(s) have full responsibility for the fund's management, strategic investment decisions and general administrative functions. Almost anyone can set up a self-managed super fund – an individual employee, an employer or someone who is self-employed. These are often established in connection with a family-run business or by a husband and wife looking to have greater control over their superannuation benefits. The core concept behind these funds' popularity is the ability to customise their structure in both the accumulation and withdrawal phases to best suit individual circumstances.

The ATO regulates that funds meet the definition of a self-managed superannuation fund whereas the Superannuation Industry Supervision (SIS) Act sets out a number of requirements a superannuation fund must meet to be a self-managed superannuation fund.

However, a SMSF does require time and effort on the part of trustees and <u>all members of the SMSF must be trustees</u>. Listed below are some of the issues that need careful consideration prior to making a commitment to a SMSF:

- the financial and time burdens of operating a self-managed superannuation fund;
- the responsibilities (and penalties for non-compliance) as trustee to comply with legislation;
- having access to third-party expertise to help manage compliance requirements;
- determining if sufficient money is available to contribute to the fund to make it a viable choice; and
- how funds will be invested and managed on an on-going basis.

RESPONSIBILITIES OF THE TRUSTEES

Once the decision to proceed has been made, there are numerous administrative and legislative requirements that need to be followed to ensure the fund is a complying superannuation fund and, as a result, be entitled to the tax concessions that apply (such as 15% tax on earnings and a special discount that applies to any capital gains made).

Why establish a SMSF if you know little to nothing about investments in general or the responsibilities of a trustee or how a trust operates?

As previously stated all members of a SMSF must be trustees. The trustees of all superannuation funds are required to formulate an investment strategy relevant to that fund. While having an investment strategy may sound quite simple at the outset, it is one of the most common areas for breaches by SMSF trustees, as the requirements for the strategy are quite specific.

Many SMSF trustees may meet these requirements initially but some find it difficult to follow the guidelines set out in the strategy.

The trustee is further responsible for ensuring the fund is properly managed and complies with the Superannuation Industry Supervision (SIS) Act and other legal obligations. Record keeping is yet another trustee obligation for compliance purposes and also to ensure that the proportion of the total holdings can be tracked and is easily allocated between members in the correct percentages.

GOOD ADVICE IS NOT CHEAP AND CHEAP ADVICE IS NOT GOOD!

One of the key findings of a recently commissioned ASIC report[2] titled "Australian Investors at a glance" conducted by Roy Morgan Research was that the investment knowledge of many trustees of SMSFs was clearly lacking in several areas. The research further found that individuals often make investments, because of various personal incidents in their lives such as divorce, inheritance, redundancy, or retirement - rather than because of a "plan to become an investor". Then too, the advice is based generally on what is said in the media. But what can one expect to pay for professional advice / assistance?

With SMSFs, it is important to weigh up all costs as it can sometimes cost members up to 5% to run an SMSF when you include investment costs, solicitor's fees, auditor costs, accounting costs and financial planning fees, administration fees – so called third-party experts.

There is a saying: *having an SMSF is like having a baby. It requires constant attention.* But why throw the baby out with the bath water? Come to our next seminar and hear what the experts have to say on the subject.

Further Reading:

Is self managed super right for you?
http://www.ato.gov.au/super/content.asp?doc=/content/60705.htm

1 - As calculated by the ATO as of 31st Dec 2006

2 - Report 121, Australian Investors at a glance: April 2008

Article by: Oscar Aguiar for Independence Group

OUR NEXT SEMINAR – SATURDAY 31ST MAY 2008

If you found the above articles interesting, then why not join us at our next Investment Seminar on Saturday 31st May 2008. Come and hear Antony Vidray from Anderson Vidray Chartered Accountants discuss Self-managed Superannuation Funds.

For Seminar Details click here ⇨http://www.i-group.com.au/Events.html