

Super: 'hands on' or 'hands off'?

Taking the wheel

Control, choice and flexibility are key reasons people give for starting a self-managed super fund (SMSF). There were 447,620 SMSFs in Australia by March 2011 so they clearly have strong appeal. This was a 6.95 per cent increase in 12 months and represents upwards of 5000 new funds established per quarter.¹ With \$432.4 billion in assets at March 2011, SMSFs now make up almost one third (31.8 per cent) of total superannuation assets of \$1.36 trillion.²

By their very nature each SMSF is unique so if this path is for you, it is important you get off to a good start. That means working closely with your financial adviser as they have a unique role in the process.

What is an SMSF?

So what is an SMSF, and why would you want one? It is simply another vehicle you can use to save for retirement but one that must meet certain conditions. For instance, SMSFs must have fewer than five members, all of whom are trustees of the fund. Additionally, no member of the fund can be an employee of another member unless they are related.

As trustee you are legally responsible for running your SMSF according to its trust deed and the relevant laws. The sole purpose of an SMSF is to provide retirement benefits to its fund members so it is critical the SMSF's investments are quite separate from any member's personal or business affairs. If not, you will feel the impact of harsh non-compliance penalties from the Australian Taxation Office (ATO) which supervises SMSFs.

SMSF investments should also not offer any pre-retirement benefit to members. While an SMSF can invest in collectibles like paintings, fund members cannot hang them on the living room wall.

Generally speaking, annual running costs mean a fund needs to have at least \$200,000 to be cost effective.

But an SMSF may be right for you, especially if you want to control your investments, choose where you put your money, and enjoy the flexibility of making your own decisions.

Having a co-driver

You can't delegate your role as trustee but you can share some of the regular tasks. Some SMSF trustees want a hands-on approach where they do virtually everything while others prefer to be hands-off, delegating as much as possible. And then there's everything in between.



If you choose to use outside assistance, then the decision is between using a financial adviser, or an accountant or administrator group. The key difference here is that while the accountant or administrator group can provide you with technical back-office functions, it remains your task to determine things like asset allocation and fund strategy.

Having a relationship with an adviser is important if you are looking for strategic and investment advice. But not everybody can give you financial advice. The adviser must hold or be licensed under an Australian Financial Services Licence (AFSL). Consequently while accountants can help establish an SMSF and lodge tax returns, they cannot advise on many superannuation strategies related to SMSFs nor on buying and selling assets.

So when it comes to your SMSF, there is flexibility in the way you can obtain financial advice. Whether it's one-off insurance planning advice, overall strategic advice, or regular investment advice, your adviser can help you manage your SMSF collaboratively, with as much or as little help as you require.

Boosting returns

An SMSF offers important tax advantages. When you make a concessional contribution into the fund, the 15 per cent contributions tax is not deducted immediately as it would be in a wholesale, retail or industry fund. Instead, you can wait until you submit the fund's annual

tax return. So the tax on a contribution made in July 2011 may not need to be paid until April 2013. That's 21 months during which those dollars work for you in your SMSF, before you pay the ATO. Add to that the impact of any imputation credits of up to 30 per cent, and it becomes even more tax effective.

In addition SMSFs are an effective estate planning tool as you can tailor the strategy to suit the members' circumstances. A fund can also borrow to purchase property or shares, both of which have the potential to leverage your investments and build your retirement savings.

SMSFs are a great vehicle for those who want greater involvement in their retirement savings. But they do require personal commitment, work and effort. While some things can be outsourced, as the trustee you are responsible for the decisions made in the fund.

1 <http://www.ato.gov.au/superfunds/PrintFriendly.aspx?ms=superfunds&doc=/content/00279547.htm>

2 *ibid.*