Introduction for people considering an SMSF

Thinking about self-managed super

Six steps to work out if managing your own super is right for you

NAT 72579-11.2011

ASIC
Australian Securities & Investments Commission

Australian Government
Australian Taxation Office

Super is the way most Australians save money to retire. Usually, you start saving for your retirement when you start work and your employer pays super for you – the ‘super guarantee’.

Generally, there are three ways you can save your super:

1. Australian Prudential Regulation Authority (APRA) regulated super funds (your super is pooled together with large numbers of other members and the fund professionally managed by trustees in compliance with super law. This is where most people have their employer paid super.).
2. Retirement savings accounts (you have your own special deposit account with a bank or other deposit-taking institution. These are not commonly held.).
3. Self-managed super funds (SMSFs) (you are responsible and the trustee of your own fund and need to comply with super law and make your own investment decisions).

For more information about super to help you with your decision making, refer to ASIC’s free booklet, Super decisions. Get a copy from ASIC’s Infoline on 1300 300 630 or from ASIC’s FIDO website for consumers and retail investors (www.fido.gov.au)

You should carefully consider which option is best to provide for your retirement. If you’re thinking about setting up an SMSF, follow these six steps in this introduction to work out:

- if this type of fund is right for you
- the things you will need to do to set it up and run it successfully.

Consider your options and seek professional advice

You should consider all your super options before making a decision about managing your own super.

There are many professionals who specialise in SMSFs. They can provide advice to help you understand:

- what an SMSF is
- the requirements for and the costs of setting one up and keeping one going
- your investment options and risks.

They can also help you set up and run your fund if this type of fund is right for you.

Financial advisers

A licensed financial adviser will consider your personal situation and recommend a suitable product for you. By using a financial adviser, you get extra protection if anything goes wrong because you have recourse to an independent complaints scheme. If you have any complaints about the advice you receive you should complain to the adviser first, and if you're not satisfied with the outcome of that complaint, you may be able to refer the matter to the Financial Ombudsman Service (FOS). The FOS is a free and independent complaints scheme.

Tax agents and accountants

Tax agents or accountants can help you set up an SMSF and advise you on the establishment, operation, structuring and valuation of an SMSF. However, they cannot advise you about which super fund best suits you or which investments should be in your fund, unless they're also a licensed financial advisory business.

Remember, if you decide to set up an SMSF, you will either be a trustee of the fund or a director of the company that is a corporate trustee for the fund. Therefore, you are legally responsible for all the decisions made even if you get help. A professional can provide advice and assistance but you're ultimately responsible.

Make sure you have enough assets, time and skills

Consider the amount of time, money and skill you'll need to devote to managing your own super fund and whether it's worth your while.

Operating an SMSF means you're responsible for the fund. You need to make sure you have enough assets, time and appropriate skills to:

- make the best investment decisions
- meet all your obligations as a trustee of your fund.

As a trustee of an SMSF, your primary responsibility is to ensure you have invested your fund's money appropriately, so ask yourself the following questions:

- Am I a confident and knowledgeable investor?
- Will an SMSF do as well as or better than other super funds after I pay all the costs?

If you are not confident you can get a better result, you may be better off leaving it to super professionals.

You need to ensure you have enough super savings to make your fund viable. The costs of establishing and running a fund can vary significantly but as a general guide, to be competitive with an APRA-regulated fund, you will need up to around $200,000. You should get advice about your circumstances, including the proposed number of members and how you propose to run the fund. It will also cost around $2,000 to run a median-sized fund each year. However, it can often cost more depending on the cost of the professional accounting services you use and the cost of tax, audit and legal advice you obtain to run the fund.

All SMSFs are subject to an annual supervisory levy designed to fund the regulatory costs of making sure funds comply with their super obligations. An annual levy of $180 is currently payable as part of the fund's income tax liability.

If you set up or join an SMSF, you need to make sure you have adequate life insurance in case you die or you're unable to work because of an illness or accident. Most APRA regulated super funds offer life insurance benefits up to a certain level if you die or you are unable to work because of an illness or accident at a low cost because they can buy group policies. You may need to consider additional costs for insurance when comparing the benefits of an SMSF with your existing fund.

You should also consider the amount of time you will need to devote to managing your own super.

Understand the risks and laws

All financial decisions carry risk, so it's important to think carefully about how you choose your investment options to balance the level of risk against the level of financial return. You also need to be sure your super investments are legal.

It's important to think carefully about how you choose your investment options. When thinking about how to manage the risks associated with your investment options, we recommend you also consider:

- your age
- what level of risk you're comfortable with
- the objectives you have for your fund.

Spreading the risk

Avoid risking all your retirement savings in one or a few investments. By spreading your investments (diversifying) you can help control the total risk of your investment portfolio. If one or more of your investments perform poorly or fail, the other investments may be performing better to help cover the loss.

Effectively spreading your risk means investing not just in different companies or different sectors of the market, but in different sectors of the economy. Don't just spread your money between different companies within the same group or only between different companies of the same type such as resources companies or banks.

For a wide range of investment tips and safety checks, visit ASIC's website for consumers and investors at www.fido.gov.au

Following tax and super laws

Super funds, including SMSFs, receive significant tax concessions as an incentive for members to save for their retirement. However, you need to follow the tax and super laws to receive these concessions.

The assets and money in your fund are solely for your retirement benefits, and are not to benefit you or anyone else outside your fund. This means that the personal use of funds for holiday homes, art to decorate your house, and your golf club membership almost certainly won't comply.

Schemes that try to get your super money out of existing funds early are usually illegal and fraudulent. Because of this, if you are caught in one of these schemes you will pay heavy tax and legal penalties. You also won't be eligible for any compensation under super law if your super fund suffers from fraudulent conduct or theft.

Make sure your trust deed and investment strategy are tailored to suit the members

Regularly review whether the trust deed and investment strategy still meet the needs of your fund and update them when required.

Trust deeds

A trust deed is a legal document that sets out the rules for establishing and operating your fund. Together with the super laws, they form the fund's governing rules. The trust deed needs to be:

- tailored to your fund
- correctly drafted to meet
  - legal requirements
  - the fund's objectives
  - the members' needs.

Investment strategies

An investment strategy sets out the fund's investment objectives and your plan to achieve them. It provides you and the other trustees with a framework for making investment decisions to increase member benefits for their retirement. Your investment strategy needs to take into account the personal circumstances of all the fund members including:

- risk tolerance and attitudes to risk
- age.

One strategy may not suit every member, especially where the fund consists of people at different stages of life. In these situations you need to select and manage investments well enough so they grow in value and meet the investment objectives of all members.

You need to make asset allocation decisions by choosing from a range of investment assets including:

- cash
- bonds
- property
- shares.

Make sure you can meet your record keeping and reporting obligations

One of your responsibilities as a trustee of an SMSF is to keep proper and accurate tax and super records to manage your fund efficiently.

It's a good idea to take minutes of all investment decisions, including:

- why a particular investment was chosen
- whether all trustees agreed with the decision.

If, as one of the fund's trustees, you invest the SMSF's money in an investment that fails, the other trustee(s) could take action against you for failing to be diligent in your duties. However, if your investment decision was recorded in meeting minutes that were signed by the other trustees, you will have a record to show the other trustees agreed with your actions.

You need to make certain records available to your fund's approved auditor when they audit your fund each year. You may also need to provide accurate records to the Tax Office if they ask to see them.

You need to report changes in certain aspects of your fund to the Tax Office when they happen and you also have annual reporting obligations, so make sure you're familiar with these requirements so you can comply with them.

Make sure you understand the auditing obligations

You have a legal obligation to have your SMSF independently audited annually.

You need to appoint an approved auditor, who will:

- provide you with a report on your SMSF
- report to the Tax Office if your fund has breached any super rules.

Approved auditors play an important role in maintaining the health of SMSFs.