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Should you set up a SMSF?

The first thing to note is that superannuation in general has become an important issue with successive Federal Governments moving to ensure that in the future each Australian will be largely self sufficient in retirement.

At June 2007 there were over 359,000 self-managed superannuation funds in Australia. Together they represent over \$287 billion dollars of investment for their members, with an average member account balance of around \$417,000.

This is almost as much as the amount held in retail managed investments. The number of funds is growing daily and the amount held in these funds will very soon surpass the amount held in retail managed investments. In fact, SMSF's are currently growing at a rate of 2500 per month.

Why are self managed super funds proving to be so popular? Is this a short term "fad" or will more and more Australians choose to register their own fund rather than using industry and retail superannuation funds?

The rate of growth in self-managed super fund registrations suggests that running your own fund is no "fad". The popularity of such funds is based upon several advantages they have over alternative arrangements, which we outline as follows:

Flexibility & Control

A Self-Managed Superannuation Fund offers a greater degree of flexibility in the establishment and implementation of an investment strategy specifically tailored to members' objectives. Industry and retail funds are often very limited in the services they offer, the options they allow you to undertake (even if the law provides such options), and require the use of multiple funds for spouse accounts, accumulation accounts and pension accounts.



In addition, the use of specific investments in the fund (such as collectibles, rental property or business real property) can provide additional strategic advantage.. Trustees of self-managed super funds can exercise their discretion over a range of issues including investment selection, estate planning issues, management processes, and benefit payments.

Retirement Income Planning

It is the ability to implement technical financial planning strategies such as pension planning that can provide the greatest benefits to SMSF members. Solutions are available from a self-managed super fund that cannot be obtained from master trusts, industry funds or defined benefits superannuation schemes. This is further highlighted now that new minimum superannuation pension standards are in effect. Trustees of SMSFs can design pensions to match their circumstances provided they comply with the minimum standards.

Estate Planning

The trustees of a self-managed super fund are more familiar with the needs and circumstances of potential beneficiaries in the event of the death of a member. They can therefore ensure that benefits are appropriately distributed in the event of death. A further advantage of a self-managed super fund is that in some circumstances, returns on fund investments could be transferred to reserves. This enables trustees to build a pool of assets that can be used for a variety of purposes, some of which can achieve beneficial estate planning outcomes. Tax-effective pensions can also be paid to children.

One of the most powerful uses of a SMSF is to allow the "second generation of a family to become members of the "family" fund established by their parents. This enables asset protection and certainty for the financial provision for the "third generation" in the event of the death of their parents.

Cost

Traditionally, any person or family group with over \$300,000 can save costs by using a self-managed super fund. This is true even where the members would prefer to have their assets invested in managed funds. However, we have dramatically reduced the threshold that makes a SMSF viable by reducing our fees to \$2500 or a **maximum** of 1% of the fund balance, whichever is the lesser. This way, a client can deposit \$50,000 and only be charged \$500 for the administration for the year.



The significant cost savings are partly attributable to the fixed administration costs associated with most SMSFs. As your fund balance increases, your costs will not increase in proportion to this increased asset base, and you are not thereby 'penalised' for your investment performance and additional contributions.

The managers of most master trust arrangements state that one of their advantages is the ability to access wholesale investment vehicles. In fact, access to wholesale investment vehicles is an argument in favour of establishing a SMSF. SMSFs can access wholesale investment vehicles, with many fund managers offering the same product available via master trusts to any self-managed super fund investing \$50,000 or more in the wholesale funds.

A master trust will generally involve a fee of 1.5% of assets under management plus the wholesale investment fee. On a balance of \$300,000, the fee would be around \$4,500 plus the wholesale fees. The fee to operate a self-managed super fund is usually in the range of \$2,500 to \$4,500 per annum plus wholesale investment fees.

SMSFs therefore have a distinct cost advantage where the members wish to use professional fund managers to look after their investments. As explained above, this cost advantage becomes more pronounced as your account balances grow. A family of 4 with combined balances of \$1,500,000 would be likely to pay approx.\$22,000 in a master trust, compared with around \$7,000 to \$10,000 for a SMSF.

Of course, the cost savings can be even greater where trustees undertake direct investments in fixed interest, properly and equity investments. It should also be noted that the balances of up to four family members could be combined to achieve the cost savings. The balances can include funds transferred from outside the superannuation system to the concessional tax environment available via self-managed super funds.

Administration and Compliance

The requirements placed upon trustees of self-managed super funds are not as onerous as those of public offer funds. With around 360,000 self-managed super funds in operation, the ability of many administration service providers in the field gives trustees several alternatives for ensuring their fund is run in accordance with legislation.

It is true that the penalties for trustees breaching the relevant rules can be harsh. The laws against drink driving are also harsh. In this sense we suggest that there is nothing particularly complex or daunting about rules governing the operation of self-managed super funds that should deter any person from



operating such a fund. The penalties are there to deter persons from fraudulent, deceptive or negligent conduct in operating their self-managed super fund. Any person who enters a SMSF arrangement with the right motives and intentions need not be concerned that they have exposed themselves to undue risk of severe penal sanctions.

The key to operating a self-managed super fund is to understand the objectives you are trying to achieve from your superannuation investments. Once the objectives are established you can formulate a strategy for a self-managed super fund to meet those objectives in a cost effective manner. You can generally achieve all the advantages claimed by master trust arrangements at a lower cost, and have the benefit of additional flexibility in investment purchases, estate planning and benefit payments.

Ability to borrow to buy property in an SMSF

New laws introduced in September 2007 allow Self Managed Superannuation Funds (SMSF's) to, for the first time, buy geared property in a simple and uncomplicated manner.

SMSF's can borrow up to 75% of the value of a property and select a property of their choice, be it;

- residential
- commercial,
- or rural
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This area is becoming the fastest growing area within the SMSF arena and is a necessity for those with low super balances. For more information request a copy of our Free report of SMSF & Property or Register for one of our free webinars.

Also see the attached two charts which explain how easy it is to buy a property within your SMSF.



Disadvantages of a SMSF?

Having explained the cost benefits available through SMSFs, we now address the weakness of SMSFs in this respect. Unless a client has a sufficient amount of assets in superannuation, due to the fixed cost nature of these funds, running their own SMSF can be expensive with low balances. It is generally considered that a SMSF requires about \$200,000 invested before it becomes cost effective. Amounts between \$200,000 and \$300,000 are generally considered to be "cost neutral" while amounts above \$300,000 will generate significant savings in managing your superannuation, particularly when compared to their retail fund alternatives. However, as explained above, we have alleviated this dis-advantage by providing a very cost effective fee schedule.

There are also once-off fund establishment costs, which vary depending upon the structure undertaken. Generally speaking, these costs range from about \$1,800 to \$2,500. Provided your SMSF is not a short-term investment, this is not a considered a significant cost in the long-run.

The responsibility of taking on the role of trustee may be seen as a disadvantage. Being trustee of your own fund can require a considerable amount of detailed work on compliance related tasks as well as managing and researching investments. While fund administrators and financial strategists can assist you with the administration and technical issues, you ultimately bear responsibility to ensure the fund is run according to the law.

However, WFS Canberra make the whole process extremely simple and efficient for you.



The Action Plan

The following table illustrates the timing and order of actions that flow from the advice given in answering the questions in the Executive summary. Once you have decided to proceed with these recommendations, we will assist you with all the necessary paperwork to ensure successful implementation of these strategies.

If you have any questions regarding any of the recommendations please raise them with us as soon as possible. If there are any recommendations or strategies that you feel we may have omitted, or you are interested in, I am most happy to talk to you about them.

Step 1	Establish SMSF	ASAP
Step 2	Set up a bank account	
Step 3	Roll over any super balances held elsewhere	ASAP
Step 4	Arrange financial planning advice to determine an appropriate investment strategy	ASAP
Step 5	Arrange advice on insurances to ensure that you are adequately covered	ASAP

As Easy as that.