Starting (or joining) a Self Managed Superannuation Fund (SMSF) is not a decision to be taken lightly. There are many myths and misconceptions out there on the benefits of SMSF's that you should be aware of so you can make an informed choice as to whether being part of an SMSF is "for you".

The Australian Securities and Investments Commission (ASIC) has outlined some information that it feels is necessary for people considering a SMSF to be aware of - these are outlined below.

All of the information in this document has been sourced from ASIC INFO sheets 205 & 206, and from the ATO website (www.ato.gov.au/smsf).

Disclaimer of No Advice

ASIC tightly regulates who can and can't give "financial advice", and what documentation must be given with financial advice. To avoid doubt we would like to re-iterate that this is NOT a piece of advice, a statement of advice, or should be in any way read as financial advice.

The following information is provided as an information service only and, therefore, does not constitute financial product advice and should not be relied upon as financial product advice. None of the information provided takes into account your personal objectives, financial situation or needs. You must determine whether the information is appropriate in terms of your particular circumstances. For financial product advice that takes account of your particular objectives, financial situation or needs, you should consider seeking financial advice from an Australian Financial Services licensee before making a financial decision.

ASIC conduct and disclosure obligations

Should you obtain advice on whether a SMSF is right for you, your advisor in most circumstances is obligated to give you a "statement of advice" (SoA) which details why a SMSF is right for you (among other things).

Your advisor is obligated to:

- Act in your best interests and prioritise your interests at all times
- Provide appropriate personal advice
- Warn you if the advice is based on incomplete or inaccurate information

Getting "advice" in the above context is different to going to your accountant and asking them about a SMSF. Where a professional informs you of the facts around SMSF's (such as in this document) and then you make up your mind based on purely factual information, that is not advice.

Costs of a SMSF

It is often misunderstood what the costs are in running a SMSF, and how these compare to APRA regulated funds (such as industrial funds, bank funds, retail funds, etc.).

Generally, an APRA fund will charge you management fees based on a % of your balance. Typically this is between 1% and 2% (however you should check your annual statements to find out the correct amount).

Some of the costs of a SMSF are:

- **Setup costs** vary from around $500 to $1500 depending on whether you want a company trustee or not. Costs can increase if you want a customised trust deed, or if you are setting up your SMSF because you want to utilise the borrowing concession;
- The **ATO** charge an **annual supervisory levy** of approx. $300 per year;

- Every SMSF must give members a set of **financial accounts annually** which need to contain various disclosures, notes, and complex members' statements. To have these done by an accountant will generally cost a minimum of $1000 per year;

- Every SMSF must also compile and **maintain various administrative documentation** (such as minutes of meetings, an investment strategy, applications for memberships, applications for pensions, etc) which will generally cost a minimum of $200 per year if done through your accountant;

- Your SMSF will need to lodge an **annual tax return** which will cost a minimum of $200 per year; and

- Every SMSF must be **audited by an independent auditor** which will cost a minimum of $500 per year (and upwards of $2,000 depending on the complexity of your SMSF).

When you add the cost of accounting, tax, financial planning advice, the added costs associated with more complex investments, and the added costs of running pensions from within the SMSF – it can be an expensive operation.

On average, it costs around $2500 per year to operate a basic SMSF, and much more for something more complex.

Based on the 1% to 2% fees charged by APRA funds, you need a balance of at least $200,000 before it is cost effective to have a SMSF.

That said, cost is not the only factor to consider in weighing up a SMSF vs an APRA fund.

Differences Between a SMSF and an APRA super fund

Aside from the obvious differences of running your own superannuation fund, the following items are noted by ASIC as important and any advice you receive on setting up a SMSF needs to explain:

1) Lack of statutory compensation

When choosing a SMSF over an APRA fund, you need to be aware that SMSF's do not get the same government protections in the event of fraud, theft, or other events.

2) Insurances

Many APRA funds provide a level of life or other insurances at minimal cost and effort (e.g. no need for a medical) that will be forgone should you choose a SMSF.

A SMSF can take out life and other insurances over its members, but in most cases the policies are more expensive and harder to obtain.

It might be worth considering leaving a minimal amount of your super inside your existing APRA fund.

3) Access to the Superannuation Complaints Tribunal

Generally, the superannuation complaints tribunal is not available to SMSF's to help resolve conflicts. This however may not be an issue as the types of disputes that arise in SMSF's tend to be different in nature and more suited to other complaint mechanisms (e.g. the Financial Ombudsmen Service or Credit & Investments Ombudsman)

4) Lack of various opportunities

Some APRA funds provide free financial advice or discounted health insurance that will be lost by moving to a SMSF

5) Control

The #1 reason why people become attracted to a SMSF is because they are in control of their investments.

Control is only good however if you know how to use it. There's no point in having control over your investments unless you have the financial acumen to out-perform an APRA fund. APRA funds are littered with financial planners that study the markets and know what they are doing.

The Time and Skills Necessary to Run a SMSF

Control also means that you, as a person with no experience in Superannuation Law, needs to manage your SMSF within the bounds of the Law to avoid various penalties and consequences. Yes you can engage professionals to assist (which will add to the costs), but ultimately you are responsible for your SMSF.

SMSF's are highly regulated by the ATO and any breaches of the rules attract various penalties – the worst being that your SMSF is made "non-complying" and loses is tax concessions, causing the whole fund to be taxed at nearly 50% (i.e. you lose 50% of your SMSF's assets).

An Investment Strategy

By Law, your SMSF must be set up for the SOLE purpose of maximising your retirement benefits.

In order to achieve that, your SMSF must (by Law) develop an investment strategy to give the SMSF direction on how it will achieve that.

Some of the things an investment strategy must consider are:

- The risk profile of the members and the role of diversification of assets in managing that risk;
- The required returns to provide the members with the desired lifestyle;
- Life insurances; and
- The various prohibitions on the types of assets SMSF's are allowed to hold.

Exit Strategy

One day, the SMSF will cease. While it can be planned that this day is well into the future, sometimes unfortunate circumstances dictate that it's sooner than desired. You need to consider what is involved in winding up your SMSF should something unexpected happen, who will be responsible for that process, and whether they are able to manage that.

Tools and Publications to Help you Decide

Other than seeing a licenced planner, there are some freely available resources available to help you decide whether running a SMSF is right for you:

- The ATO's SMSF page (https://www.ato.gov.au/Super/Self-managed-super-funds/); and
- The SMSF education program created by the 3 accounting bodies CAANZ (formerly ICAA), CPA, and IPA (http://www.smsftrustee.com/cpa/htm/home.asp).

Summary

Having an SMSF can be a rewarding experience. Knowing that you had a large hand in your retirement outcome appeals to many – however unless you have the time, financial literacy, and ability to correctly manage your SMSF and its investments, you may be better off with your APRA fund.

Liability limited by a scheme approved under professional standards legislation

If you Decide to Setup a SMSF

If you decide that a SMSF is right for you, then you need to ensure that you go through the setup process in its entirety to ensure you qualify for the relevant tax concessions that make superannuation such an attractive proposition.

Step 1: Decide on the Trustees

A SMSF can have either individual trustees, or a company trustee. All members must be either an individual trustee or a Director of the trustee company (to ensure that all members have control).

Individual trustees are cheaper to setup, however potentially more expensive in the long run for two main reasons:

ATO fines are applied per trustee. Having a company as the trustee ensures that the fine is only levied once.

All assets need to be in the name of the trustees. If you add or remove members at a later date, SMSF's that have chosen individual trustees have to go through the process of changing the official holding records on every asset – which can be time consuming and expensive. All a SMSF with a company trustee needs to do is update the Director names with ASIC.

We always recommend a company trustee.

Step 2: Execute a Trust Deed

The trust deed sets out the rules of your superannuation fund (in addition to the Laws set down by the Government). Deeds will outline certain restrictions that compulsory in order for your SMSF to be compliant with the Law and receive the concessional tax treatment (for example, the deed must state that trustees cannot be paid).

If you engage MCA to setup your SMSF: We are able to provide a compliant deed (obtained from our legal document supplier) and guide you through the process.

Step 3: Sign an ATO Trustee Declaration

All trustees must sign a declaration stating that they understand the environment the SMSF operates in.

If you engage MCA to setup your SMSF: We provide these declarations to you.

Step 4: Apply for and Obtain a Tax File Number and Australian Business Number

Once steps 1 through 3 are carried out, the SMSF needs to apply for a TFN and ABN. It is at this stage that the SMSF also applies for its concessional tax treatment (referred to as being a Regulated Fund). Until these are obtained, your SMSF is not able to accept contributions.

Once approved, the SMSF is listed on the register of regulated funds and is able to accept contributions.

If you engage MCA to setup your SMSF: We apply for these registrations automatically upon receipt of the signed and executed trust deed and associated documents.

Step 5: Create and Maintain a Trust Register

By Law your SMSF must keep a register of various documents, including recording details of every decision made. This can be a simple folder, a D-ring binder, or something electronic.

If you engage MCA to setup your SMSF: We will provide you with the initial documentation to begin your register (excluding an investment strategy).

If you engage MCA to maintain your trust register: We will produce all documentation required to maintain the trust register on an annual basis. We are limited however to what you inform us about – for example, we can create minutes of a meeting that you fail to tell us about.

Step 6: Open a Bank Account

One of the relevant rules is that a SMSF must keep its assets and money separate from those of the members and other people. The only way a SMSF can comply with this rule is if the SMSF has its own bank account and all business of the SMSF goes through this account.

In order to set up your bank account, the bank will need signed copies of the deed at a minimum.

Your SMSF technically doesn't begin to operate until it has received a contribution, so it is in your best interest to organise the bank account and make a small deposit as soon as practical.

Step 7: Implement an Investment Strategy

Your SMSF must create and maintain an investment strategy. This must be documented and kept in your trust register.

Your investment strategy would detail what investment returns are being aimed for, what risks your members are willing to take, how diversified the investments should be to minimise risk, how much cash should be maintained to meet expenses, and whether insurances will be obtained.

MCA can provide a template upon request (for a small fee), or can assist you in designing an investment strategy appropriate for your circumstances upon request

Step 8: Annual Accounts and Audit

Like everyone, a SMSF is required to lodge a tax return each year. In addition it must prepare a detailed set of accounts for its members that detail things like investment returns, member balances, and the policies used.

The ATO also require that each SMSF is audited by an approved auditor each year.

You can engage MCA to perform all of these requirements

Other Resources

The above steps are all outlined in a short video provided by our financial planning licence holder – MCA Financial Planners Pty Ltd – and is available on our website at www.mcaaccountants.com.au

The ATO have detailed information about all aspects of a SMSF that are freely available on their website at www.ato.gov.au/super/self-managed-super-funds/