

Is an SMSF the right choice for me?



Brought to you by SMSF experts you can rely on

When you see the figures about SMSFs they speak for themselves. There are just over 1 million Australians who belong to the 590,000 SMSFs that are in existence today. There are over 20,000 SMSFs established each year. However, the question you should ask if you are thinking about an SMSF is — is an SMSF the right decision?

Before embarking on an SMSF there are a number of issues to be considered and whether an SMSF will meet your goals and objectives.

When considering an SMSF the first thing to do is talk to someone who already has one. Then make sure you do your research on the benefits of having an SMSF as well as any potential pit falls you could face. There are a few questions that you should ask yourself about whether an SMSF suits your circumstances.

You should be able to answer the following questions as an absolute minimum:

- What level of control of your superannuation are you after?
- How much do you have in superannuation or are prepared to contribute to commence and operate an SMSF?
- Are you prepared to act as trustee of an SMSF?
- Do you understand your role and responsibilities as trustee of an SMSF so that you are able to run your SMSF with confidence?
- How much do you know or are prepared to find out about being a member/trustee of an SMSF?
- Do you understand what is required with the investments of an SMSF?
- How will the fund be managed on an ongoing basis — what will you do and what will you get others to do?
- How much will it cost to establish and run an SMSF?

Control

Control means different things to different people.

It is important to determine whether you wish to:

- make all decisions and be regularly involved in the management of the SMSF; or
- make key decisions, such as investments, without heavy involvement in the daily management of the fund and compliance issues.

Often, your answer will help you evaluate whether an SMSF is suitable, and the level of services you are seeking.

How much do you need to start an SMSF?

When thinking about how much you may need to start an SMSF, it is important to consider:

- the initial level of assets as a starting point; and
- how much may be contributed to the fund in the first few years the fund is in existence.

There is probably a minimum amount necessary to justify the establishment of an SMSF. However, the actual amount is a complex issue due to a number of competing factors, such as, how much do you have in super now and what do you think will be contributed to super for you over the next few years.

Many would consider it is more prudent to commence an SMSF when superannuation benefits exceed \$200,000. However, the right amount depends on the level of contributions being made, and how quickly it will grow.

Member/trustee knowledge

Given the level of responsibility undertaken by SMSF member/trustees, the level of knowledge your potential role and responsibilities as trustee must be carefully considered.

If you have a limited level of knowledge, then further information about being an SMSF trustee should be investigated before setting up the SMSF.

The trustees of an SMSF are ultimately responsible for the fund and should have a minimum level of knowledge about their legal and administrative responsibilities. There is plenty of information on SMSFs which is freely available. The ATO has a series of fact sheets and other publications on their website access to free online SMSF trustee courses to help you fully understand your obligations.

After you have considered your obligations and responsibilities for an SMSF there may be other types of super funds that may suit your circumstances, such as a small APRA fund or public offer master trust.

Fund membership and profile

The membership of the fund, and profile of fund members, may have a significant impact on the cost of operating the fund. For example, consider the differences between:

- a single member SMSF in the accumulation phase; and
- an SMSF with two members in their retirement phase, each receiving monthly pension payments.

Investment strategy considerations

Ensure that the proposed investment strategy will be consistent with regulatory requirements and appropriate to meet current and projected cash flows (particularly pension liabilities).

For example, high levels of direct property assets are often popular but may cause liquidity difficulties for SMSFs, particularly those paying pensions.

Style of administration

The style of administration used for an SMSF may also have an impact on the ongoing administration expenses. For example:

- a comprehensive administration service can provide trustees with regular updates and online access to member records will generally cost more than;
- administration services comprising of an administration and compliance service provided after the end of the tax year.

Ongoing fund management

Will the fund be professionally managed?

If not, how will the member/trustees ensure that the fund is properly managed and all required record keeping accurately maintained?

There are many things that an SMSF trustee must do during a year. This may involve preparation of BAS returns, PAYG instalments, PAYG withholding etc. In addition, investments usually need to be reviewed regularly. A major consideration is whether records will be able to be kept in a manner that will efficiently facilitate the necessary actions.

Costs

An SMSF can be cost competitive compared to other types of superannuation funds, but it is usually not the determining factor for having an SMSF. There are costs involved in establishing and maintaining an SMSF. These costs include establishment and ongoing costs, professional adviser fees, accounting, administration, audit, investment and actuarial fees. The cost can depend on what you are prepared to do for your fund. This could include you making decisions about fund's investments or the fund's accounting.

It may be useful for you to work out the total ongoing expenses as a percentage of the total superannuation assets and compare this to the equivalent expense of other alternatives such as publicly offered personal superannuation funds, master trusts & industry funds. The cost is only part of the SMSF decision tree and should always be balanced with the other reasons for having an SMSF.

Set up costs

The costs involved in establishing an SMSF need to be carefully compared with the cost of alternatives. Costs incurred in the establishment of an SMSF may include:

- professional advice costs (such as financial, investment, tax and accounting advice) obtained in relation to the use and establishment of an SMSF,
- legal costs associated with the preparation and execution of the fund's trust deed and other legal documentation, including all associated consultations,
- the cost of setting up a corporate trustee, if required,
- registering the fund as a complying superannuation fund with the ATO and obtaining the ABN and TFN, or
- the cost of training or education to get you up to speed with running an SMSF.

Investment costs

The type of investments used by the fund may have a significant impact on the costs associated with operating the fund. For example, consider the differences between and SMSF that invested in:

- a single managed fund;
- a number of direct property investments;
- a range of direct equities; and
- a selection of the above.

Fund complexity and costs

The complexity of the SMSF may have an impact. For example, an SMSF which has a number of different types of pensions will generally be more expensive than an SMSF which is administered on an accumulation basis.

Cost of professional service providers

The cost of an SMSF can be influenced by the use of professional service providers that provide assistance with the ongoing operation and management of the fund. This will be determined by the level of service provided and the number of features available.

Ongoing expenses

In addition to the costs associated with establishing the SMSF, there are ongoing costs involved in the day to day management of the fund. Typical fees include:

- accounting and taxation fees;
- investment management and brokerage fees;
- administration fees;
- legal fees;
- annual audit fees;
- actuarial fees;
- costs incurred in the buying and selling of fund assets (stamp duty etc.); and
- the cost of additional specialist advice, if and when required.

The actual ongoing costs incurred by an SMSF will vary substantially and are influenced by your level of involvement in running the fund.

First things first

Starting an SMSF has many things that need to be considered. Before commencing an SMSF you should always consider:

- your goals and objectives for establishing the fund,
- the level of control you are seeking on an ongoing basis,
- the level of overall costs and whether they are reasonable,
- whether you are prepared to accept the responsibilities involved as a fund trustee,
- the type of professional advice required to assist with the management of the fund, and
- how the fund will be administered/managed on an ongoing basis.

Once you have that bedded down and you have clear answers to each of the above things, you will be well on your way to building wealth for your retirement.

Further information



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