Bernard Marin

bernardm@marinaccountants.com.au

The Australian Jewish News, 24 August 2012

Self-managed super – is it for you?

Most people know something about self-managed super funds (SMSFs), the do-it-yourself version of compulsory superannuation. But for many people, the many benefits of SMSFs – as well as the potential costs – are unknown.

Do you understand enough to know if an SMSF could be right for you?

Back to basics

An SMSF is a superannuation fund of one to four members, all of whom act as trustees and are responsible for running the fund, investing assets, paying benefits and meeting compliance requirements.

While the SMSF is in the 'accumulation' phase (before it starts paying a pension), capital gains are taxed at 10 per cent or 15 per cent and the fund's investment income is taxed at only 15 per cent – a rate that drops further when imputation credits on franked dividends are used to lessen (or even eliminate) the fund's tax liability. Once the SMSF starts paying a pension, the investment earnings on the fund's assets, including all capital gains, are tax free and imputation credits are refundable.

First, the good news

The great advantage of an SMSF is that you're in control. Asset allocation, tax strategies, insurance options and retirement planning – it's all up to you.

Direct control

SMSF assets are administered by trustees who are also members of the fund. Whereas industry funds are managed on an individual's behalf, SMSF trustees have direct control over when investment assets are bought and sold, and when capital gains are realised.

Trustees also exercise control over the fund's service providers (for example, the administrator, auditor, financial adviser, insurer or investment manager) and can seek out the best provider at the best price, or change service providers. Compare this to industry funds where service providers are usually bundled with the fund, leaving unhappy members with no choice but to leave the fund.

Choices, choices

As trustees have absolute choice over the fund's investments, SMSFs provide greater choice than individual funds, opening up many investment options – property, shares, cash, art and collectibles (note that conditions apply) can all become an SMSF investment (provided the investment strategy meets the 'sole purpose test').

Fee savings

Most super funds charge management fees of between 1.5 per cent to 3 per cent, or even more, of fund assets. Taking direct control can help you save on these fees. And while SMSF running costs can be significant – but more on that later – they can be outweighed by the considerable savings on fund manager fees and the benefits arising from a personalised superannuation strategy.

Pensions and estate planning

As trustees and members have direct control over the SMSF, it's much easier to tailor pensions and estate planning to personal requirements. Instead of the uniform approach of industry funds, trustees can pursue different strategies to adapt to changing market conditions, create different income streams, or adopt other strategies (again, conditions apply).

Property advantages

SMSFs may own residential property, provided the fund buys the property from or leases it to an unrelated party. Business owners can also own their business premises in an SMSF and rent to themselves or to a related party. Also, SMSFs can borrow to fund the acquisition of property, subject to certain constraints.

But consider this...

Your time – and skills

SMSFs suit people who want to take charge of their superannuation – and who are willing to devote considerable time to running their fund.

Those extra costs

Administration or accounting fees, annual audit fees (every SMSF must be independently audited), investment costs, and sometimes, actuarial costs, can all add up. Generally, the annual costs of running a medium-sized SMSF are between $2000 and $5000. Your fund needs to be substantial enough to make this worthwhile, so SMSFs are usually not advisable if the fund assets are likely to be less than $200,000.

Compliance requirements

SMSFs have strict compliance requirements. Fund trustees and members should be careful to understand and adequately address these requirements, as penalties can be severe.

And the returns?

There is no guarantee that your SMSF will outperform industry funds.

Before making the switch

If you're considering switching to a SMSF, ask yourself:

- Do I have the time and skills to run my own super fund?
- Will the benefits be worth the costs?
- How will switching to an SMSF affect my current super benefits, insurances, services and fees?

SMSFs are complex, but can offer significant benefits to the right investor. If you want to know more, seek advice from a qualified accountant or financial planner.

Bernard Marin is the founder of Marin Accountants