

# Self-Managed Super Funds (SMSFs)

## The basics!

June 2014



**SMSFs offer individuals a lot of flexibility and control. However, they also come with a great deal of responsibility. They can be time-consuming to manage and in some circumstances extremely costly. This fact sheet has been designed to help you make an informed decision about whether an SMSF is right for you!**

### 1. What is an SMSF?

Quite simply, an SMSF is a super fund with one to four members. Each member has equal responsibility for governing the fund, via individual trusteeship or a corporate trustee structure. Some key characteristics include:

- an SMSF must be operated for the sole purpose of providing benefits to members on their retirement;
- trustees of the SMSF must establish an investment strategy for the fund, with the flexibility to choose from a wide range of investment options;
- the trustees must also keep accurate records of fund operations, according to legislative requirements;
- the running of an SMSF requires the appointment of approved auditors – and in many cases, financial advisers, accountants and/or tax agents; and
- all legal responsibility lies with the members of the SMSF.

### 2. Who typically has an SMSF?

According to the Australian Taxation Office (ATO)<sup>1</sup>, SMSFs are generally held by individuals who:

- on average earn almost double that of an average non-SMSF member – a taxable income of \$97,000 p.a. as compared to \$56,000 p.a.;
- in 82% of cases are aged 45 or over; and
- have an average member balance of \$487,000. This is approximately 16 times the size of the average account balance of non-SMSF members of \$30,000.

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<sup>1</sup> 'Self-manager super funds: A statistical overview 2011-2012', Australian Tax Office report, 16 December 2013.





### 3. Does an SMSF tick all the boxes for you?

Before going any further, we recommend you complete the following simple exercise.

Question	Further information	Yes/No
 <p>Do you have <b>enough super</b> to justify the costs associated with <i>establishing</i> and <i>running</i> an SMSF?</p>	<p>Rice Warner analysis for ASIC found that if SMSF trustees require full service from SMSF administrators, then a fund balance of \$500,000 is needed to be more cost-effective than a large super fund.</p> <p>If SMSF trustees plan to do some of the fund administration, then a super balance of between \$200,000 and \$250,000 is likely to be needed to make a SMSF a cost-effective option when compared against the costs of large super funds.<sup>2</sup></p>	<p>Yes <input type="checkbox"/></p> <p>No <input type="checkbox"/></p> <p>Unsure <input type="checkbox"/></p>
 <p>Do you have enough <b>time</b> and <b>expertise</b> to <i>establish</i> the Fund – and are you aware of the associated costs?</p>	<p>There are a number of activities that need to be undertaken to set-up an SMSF:</p> <ol style="list-style-type: none"> <li>1. <b>Establish a trust deed</b> – this should set out how the fund will operate.</li> <li>2. <b>Appoint trustees</b> – these can either be individuals (ie the fund members) or a corporate.</li> <li>3. <b>Elect to be a regulated fund</b> – by obtaining a Tax File Number and ABN from the ATO.</li> <li>4. <b>Prepare an investment strategy</b> – the strategy must take into account risk, return, diversification, liquidity, cash flow and asset allocation.</li> <li>5. <b>Arrange insurance cover</b> – identify and appoint suitable providers.</li> <li>6. <b>Open a bank account</b> – to keep your fund assets separate from your personal and/or business assets and to manage your contributions, investments, earnings and expenses.</li> <li>7. <b>Establish an administration/filing system</b> – as a trustee of an SMSF you are required to keep records and accounts for the fund.</li> <li>8. <b>Appoint an auditor</b> – you must appoint an eligible auditor to conduct an annual audit of your fund's financial accounts and statements.</li> </ol>	<p>Yes <input type="checkbox"/></p> <p>No <input type="checkbox"/></p> <p>Unsure <input type="checkbox"/></p>
 <p>Do you have enough <b>time</b> and <b>expertise</b> to <i>manage and administer</i> the Fund – and are you aware of the associated costs?</p>	<p>Once the SMSF is set-up, as a trustee, you have a range of management and administration tasks to undertake:</p> <ol style="list-style-type: none"> <li>1. <b>Keep accounts</b> – which detail the financial position of the fund and its transactions, as well as operational information. These accounts must be kept for a period of five years.</li> <li>2. <b>Maintain minutes</b> – of all trustee meetings and trustee agreements. These minutes must be kept for a period of 10 years.</li> <li>3. <b>Annual returns</b> – keep copies of all annual returns – for a period of 10 years.</li> <li>4. <b>Member reports</b> – retain copies of all reports give to members – for a period of 10 years.</li> <li>5. <b>ATO reporting</b> – report all contributions by specified dates, each year.</li> </ol>	<p>Yes <input type="checkbox"/></p> <p>No <input type="checkbox"/></p> <p>Unsure <input type="checkbox"/></p>
 <p>Do you have enough <b>financial knowledge</b> to manage the <i>fund's investments</i>?</p>	<p>Trustees of the SMSF must establish an investment strategy for the fund, and offer the flexibility to choose from a wide range of investment options.</p> <p>Lack of knowledge with regards to investments could lead to the making of rash and uninformed decisions that could have <b>serious consequences</b> on fund returns – and therefore end retirement benefits.</p>	<p>Yes <input type="checkbox"/></p> <p>No <input type="checkbox"/></p> <p>Unsure <input type="checkbox"/></p>

<sup>2</sup> 'Cost of Operating SMSFs': ASIC, Rice Warner Actuaries, May 2013

Question	Further information	Yes/No
 <p>Do you have access to the <b>support services</b> you may require?</p>	<p>You may decide to outsource some responsibilities. This could include:</p> <ol style="list-style-type: none"> <li>1. The appointment of <b>approved auditors</b> to conduct the fund's annual audit.</li> <li>2. The outsourcing of <b>investment management</b> to manage members' assets.</li> <li>3. The hiring of <b>financial advisers</b> to work with the fund and appointed <b>professionals</b> to ensure your affairs are in order.</li> <li>4. The appointment of <b>accountants</b> to keep the fund's books in order.</li> <li>5. The hiring of <b>tax agents</b> to ensure the fund is managing its tax obligations.</li> </ol> <p>Of course, the above appointments all come at a cost!</p>	<p>Yes <input type="checkbox"/></p> <p>No <input type="checkbox"/></p> <p>Unsure <input type="checkbox"/></p>
 <p>Are you aware of the associated <b>legislation</b> and <b>laws</b> that <i>govern</i> SMSF trustees – and the <i>penalties</i> that apply for <i>non-compliance</i>?</p>	<p>The responsibility for <i>all</i> decisions concerning the fund lies with the SMSF members as trustees. It is therefore the members' responsibility to keep abreast of legislative change and the rules governing super funds.</p> <p>The cost to the fund for non-compliance could result in an effective <b>tax rate of 45%</b>, and 45% in the 2014-15 financial year (as opposed to 15% for complying funds), on all income, other gains and the assets of the fund in the first year of non-compliance – and possible prosecution of the trustee.</p> <p>There are various laws trustees need to act according to (and therefore be familiar with) including, but not limited to, the <i>Superannuation Industry (Supervision) Act 1993 (SIS)</i>, the <i>Income Tax Assessment Act 1997 (ITAA 1997)</i> and the <i>Corporations Act 2001</i>.</p>	<p>Yes <input type="checkbox"/></p> <p>No <input type="checkbox"/></p> <p>Unsure <input type="checkbox"/></p>

**If you answered 'no' or 'unsure' to any of the above questions, you may want to consider whether an SMSF truly is the right option for you. A financial adviser will be able to offer some guidance.**

If you answered 'yes' to all of the above questions, then please read on to find out a little more about SMSFs.

## 4. How do SMSFs compare to funds such as Prime Super?

SMSFs	Prime Super
<b>Costs</b>	
<ul style="list-style-type: none"> <li>Establish fund – \$1,285 (mid-range fund)<sup>3</sup></li> <li>Annual member fee – \$1,702 to \$4,233<sup>4</sup> (to cover the following services) <ul style="list-style-type: none"> <li>Administration fees</li> <li>Audit fees</li> <li>Actuarial fees</li> <li>Annual return fee</li> <li>Investment manager fees</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Establish account fee – \$0</li> <li>Annual member fee – \$572.80 p.a.*</li> <li>Indirect cost of investment option – \$1,360 p.a.*</li> <li>Withdrawal fee</li> <li>Investment switching fee</li> <li>No contribution fee</li> </ul>
<b>Administration</b>	
<ul style="list-style-type: none"> <li>Maintain documentation</li> <li>Manage all payments and receipts</li> </ul>	<ul style="list-style-type: none"> <li>Everything is done for you</li> </ul>
<b>Compliance</b>	
<ul style="list-style-type: none"> <li>Annual independent audit</li> <li>Prepare annual financial statements</li> <li>Prepare annual tax return and lodge it</li> <li>Ensure the investment strategy is followed and all other compliance requirements meet the current superannuation legislation</li> </ul>	<ul style="list-style-type: none"> <li>Everything is done for you</li> </ul>
<b>Investments</b>	
<ul style="list-style-type: none"> <li>You choose your own investment strategy which forms part of the trust deed</li> <li>You can invest in a wide range of options such as direct property and managed investments</li> </ul>	<ul style="list-style-type: none"> <li>A wide range of investment options are made available to you</li> <li>You can then choose the most appropriate for your circumstances</li> </ul>
<b>Insurance</b>	
<ul style="list-style-type: none"> <li>Select and purchase the insurance cover of your choice</li> <li>File your own claims</li> <li>Premiums are paid out of after-tax dollars so there are no associated tax benefits</li> </ul>	<ul style="list-style-type: none"> <li>You will automatically receive default insurance cover on joining the Fund – this can be increased or additional types of insurance cover taken out</li> <li>Cheaper premiums are available as part of a group policy</li> <li>Premiums paid from the Fund may receive tax deductions which may ultimately positively effect your end benefit</li> </ul>
<b>Wealth management</b>	
<ul style="list-style-type: none"> <li>May provide you with a range of options in terms of estate planning and flexible benefit payments</li> </ul>	<ul style="list-style-type: none"> <li>Preferred and binding beneficiary nominations are available</li> <li>Benefit payments are made in line with the trust deed and the relevant law</li> </ul>
<b>On retirement</b>	
<ul style="list-style-type: none"> <li>Sell down all assets, close Fund and then establish a pension account</li> </ul>	<ul style="list-style-type: none"> <li>Can roll super balance straight into a Prime Super retirement income option – or a product of choice</li> </ul>

<sup>3</sup> 'Costs of Operating SMSFs', ASIC: Rice Warner Actuaries, May 2013. Costs based on establishment of mid-level fund.

<sup>4</sup> As above. \$1,702 fee figure based on mid-range accumulation fund annual compliance costs and investment management fee for \$200,000 fund balance. \$4,233 fee figure based on full administration costs for mid-level accumulation fund.

\* Based on an account balance of \$200,000 and investment in Prime Super's MySuper option.

## 5. How much does it cost to run an SMSF?

That really all depends on how much of the management of the fund the trustee decides to outsource and how much money is held in the fund.

### Cost to set-up

The cost to set up an SMSF can be expensive. According to Rice Warner analysis in May 2013, the average cost is **\$1,285**.

### Cost to manage on an ongoing basis

Again, this really depends on how much the trustees choose to outsource, and how much money is held in the fund. A lot of SMSF costs are **fixed costs** so the more money in the fund, the lower the percentage fee per member!

For example, if an SMSF holds:

- \$50,000 in assets, the estimated average operating expense would be between **3.11%-8.5% p.a.** (\$1,555-\$4,250);
- \$200,000, the same estimated expense would be **0.85%-2.2% p.a.** (\$1,702-\$4,397);
- \$500,000, the same estimated expense would be between **0.4%-0.94% p.a.** (\$1,999-\$4,694)<sup>5</sup>

If we compare the above costs to the average *industry fund fee* (Prime Super falls into this category) of **0.94% p.a. or \$468 p.a.**<sup>6</sup> (based on an account balance of \$50,000) you can see that there can be a big difference.

And this fee applies regardless of account balance – in fact it can also reduce if a larger account balance is held with a fund!

## 6. Some additional points to consider before establishing an SMSF

### Insurance

If you choose to leave Prime Super, you need to be aware that any insurance arrangements you have in place, will cease.

Insurance through funds such as Prime Super is often available at a lower cost because insurance policies can be bought in bulk – and hence lower the cost of the premiums! SMSFs most likely can't access policies at such a reduced rate as they don't have the scale in membership.

You can of course keep some super with Prime Super as a means by which to keep your insurance cover with us.

### Winding down

The majority of SMSFs (69%) have only two members<sup>7</sup>, so if a member chooses to leave, all responsibility then lies with the remaining member – and the percentage cost of operating the SMSF increases significantly due to the reduction in fund assets.

There are also a number of activities that need to be undertaken to wind down an SMSF:

- Tell the ATO within 28 days of the fund being wound up.
- Deal with member benefits in accordance with the super laws and the trust deed – this may mean paying out eligible termination payments, if entitled, or rolling benefits to another fund (you may need to sell assets to do this).
- Have a final audit of the fund undertaken.
- Complete your reporting obligations with the ATO and pay any final liabilities.

### Complaints

Unlike other super funds, SMSFs don't have access to the Superannuation Complaints Tribunal. Should issues or disagreements in how the fund is being managed arise, it is up to the fund members to sort these issues out among themselves – or seek legal action – which can be very costly.

### Fraud

The Joint Parliamentary Committee on Corporations and Financial Services has recommended that the ATO include understandable, large print warnings on its website that explain SMSFs are not covered by insurance or guarantees for theft or fraud.

*But on a more positive note...*

## 7. There are a number of benefits associated with SMSFs

### Greater control

An SMSF gives you control over your own investment strategy. As the trustee you are responsible for managing the investment strategy and the underlying investments of the fund.

### Investment choice

An SMSF gives you greater flexibility in your choice of investments under certain conditions. Your portfolio can generally include a wide range of investments such as managed funds as well as direct assets like bonds and shares.

### Tax efficiency

SMSFs are treated for tax purposes exactly the same as other superannuation funds. This means they receive the benefit of a concessional tax rate of 15%.

### Total wealth management

SMSFs may also provide you with a range of options in terms of estate planning and flexible benefit payments.

<sup>5</sup> 'Cost of Operating SMSFs', ASIC: Rice Warner Actuaries, May 2013. Figures based on mid-level accumulation accounts, ranging from SMSF compliance admin cost to SMSF full admin cost.

<sup>6</sup> As above. Figure based on one member mid-level accumulation account.

<sup>7</sup> 'Self-manager super funds: A statistical overview 2011-2012', Australian Tax Office report, 16 December 2013.

### Additional information

As you can see, there is a lot of work involved in not only establishing an SMSF, but running the fund on an ongoing basis.

For this reason, we recommend you do some research and obtain as much information as possible on SMSFs, before you take the plunge!

## 8. Additional help!

Write to us at: Locked Bag 5103 Parramatta NSW 2124  
Helpline: 1800 675 839  
Fax: 1800 023 662  
Overseas callers: +61 2 9374 3967  
Email: [administration@primesuper.com.au](mailto:administration@primesuper.com.au)  
Website: [www.primesuper.com.au](http://www.primesuper.com.au)

### Receive financial advice!

At Prime Super, we provide members with limited financial advice over the telephone. A planner may be arranged to help you determine which contribution options are right for you, based on your individual circumstance and needs. And it won't cost you a thing.

Call us today on **1800 675 839**.

If you require further advice and potentially a full financial plan, we can refer you to a financial planner. Prime Super has arrangements with a small number of licensed financial planners who offer low cost, commission-free financial advice and the first consultation with a planner is at no charge.

Call us today on **1800 675 839**.

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