Thinking about setting up a self-managed super fund (SMSF)?

Self-Managed Super Fund Information

You should first gain a sound understanding of the tax, superannuation and investment rules that apply to self-managed super funds.

Self-managed super fund trustees are subject to various obligations and duties in relation to which a breach can give rise to significant penalties. Also, the rules regulating self-managed super funds are complex and subject to ongoing changes.

Generally, there are three ways you can save your super:

1. Australian Prudential Regulation Authority (APRA) regulated super funds
    - Your super is pooled together with large numbers of other members and the fund professionally managed by trustees in compliance with super law. This is where most people have their employer paid super.

2. Retirement savings accounts
    - You have your own special deposit account with a bank or other deposit-taking institution. These are not commonly held.

3. Self-managed super funds (SMSFs)
    - You are responsible and the trustee of your own fund and need to comply with super law and make your own investment decision.

Self-Managed Super Funds

A self-managed super fund must be run for the sole purpose of providing retirement benefits for the members or their dependants. Operating a self-managed super fund means you're responsible for the fund. You need to make sure you have enough assets, time and appropriate skills to;

- Make the best investment decisions
- Meet all your obligations as a trustee of your fund.

As a trustee of an SMSF, your primary responsibility is to ensure you have invested your fund's money appropriately. You need to ensure you have enough super savings to make your fund viable.

Costs

The costs of establishing and running a fund can vary significantly but as a general guide, to be competitive with an APRA-regulated fund, you will need up to around $200,000.

You should get advice about your circumstances, including the proposed number of members and how you propose to run the fund. It will also cost from $2,000 to run a median-sized fund each year. However, it can often cost more depending on the type of investments and complexity of your structure as well the cost of the professional accounting services you use and the cost of tax, audit and legal advice you obtain to run the fund.

All SMSFs are subject to an annual supervisory levy designed to fund the regulatory costs of making sure funds comply with their super obligations. An annual levy of $259 is currently payable as part of the fund's income tax liability.

Insurance

If you set up or join an SMSF, you need to make sure you have adequate life insurance in case you die or you're unable to work because of an illness or accident.

Most APRA regulated super funds offer life insurance benefits up to a certain level if you die or you are unable to work because of an illness or accident at a low cost because they can buy group policies.

You may need to consider additional costs for insurance when comparing the benefits of an SMSF with your existing fund.

Risk

It's important to think carefully about how you choose your investment options. When thinking about how to manage the risks associated with your investment options, we recommend you also consider:

- Your age
- What level of risk you're comfortable with
- The objectives you have for your fund

Avoid risking all your retirement savings in one or a few investments. By spreading your investments (diversifying) you can help control the total risk of your investment portfolio. If one or more of your investments perform poorly or fail, the other investments may be performing better to help cover the loss.

Effectively spreading your risk means investing not just in different companies or different sectors of the market, but in different sectors of the economy.

Tax and Super Laws

Super funds, including self-managed super funds, receive significant tax concessions as an incentive for members to save for their retirement. However, you need to follow the tax and super laws to receive these concessions.

The assets and money in your fund are solely for your retirement benefits, and are not to benefit you or anyone else outside your fund. This means that the personal use of funds for things such as holiday homes or art to decorate your house almost certainly won't comply.

Trust Deeds

A trust deed is a legal document that sets out the rules for establishing and operating your fund. Together with the super laws, they form the fund's governing rules. The trust deed needs to be:

- tailored to your fund
- correctly drafted to meet:
    - legal requirements
    - the fund's objectives
    - the members' needs

Investment Strategy

An investment strategy sets out the fund's investment objectives and your plan to achieve them. It provides you and the other trustees with a framework for making investment decisions to increase member benefits for their retirement. Your investment strategy needs to take into account the personal circumstances of all the fund members including:

- Risk tolerance and attitudes to risk
- Age

You need to make asset allocation decisions by choosing from a range of investment assets including:

- Cash
- Bonds
- Property
- Shares

Defensive Investments

Cash and **bonds** are defensive investments, with practically no risk of losing money, and the returns may seem reasonably high. However, you will lose some of the return in taxes and some to the effect of inflation. These safer (defensive) investments don't provide long-term capital growth.

Capital growth investments

Property and **shares** are capital growth investments and tend to be more tax effective. This means the value of your investment should grow faster than inflation, creating real wealth.

However, capital growth is not guaranteed and there can be a lot of ups and downs over the investment time period. Each year, the amount and frequency of your gains or losses will be uncertain and could differ, perhaps significantly, from reasonable long-term estimates. Specific assets may lose value and never regain it.

Record Keeping & Reporting Obligations

One of your responsibilities as a trustee of a self-managed super fund is to keep proper and accurate tax and super records to manage your fund efficiently.

You need to make certain records available to your fund's approved auditor when they audit your fund each year. You may also need to provide accurate records to the Tax Office if they ask to see them.

You need to report changes in certain aspects of your fund to the Tax Office when they happen and you also have annual reporting obligations, so make sure you're familiar with these requirements so you can comply with them.

It's a good idea to take minutes of all investment decisions, including:

- Why a particular investment was chosen; and
- Whether all trustees agreed with the decision.

Auditing

You have a legal obligation to have your self-managed super fund independently audited annually. You need to appoint an approved auditor, who will:

- Provide you with a report on your SMSF; and
- Report to the Tax Office if your fund has breached any super rules

It is recommended that you complete a self-managed super fund trustee education program. On successful completion of one of these programs, you will receive a certificate of attainment. These programs are free and can be accessed via the following link:

https://www.ato.gov.au/Super/Self-managed-super-funds/Administering-and-reporting/How-we-help-and-regulate-SMSFs/Approved-education-courses/

To assist you in determining whether a self-managed super fund is appropriate for you, you may wish to consider the material published by the ATO on this topic (refer to the link below):

https://www.ato.gov.au/Super/Self-managed-super-funds/

The resources set out above on establishing and operating a self-managed super fund are illustrative only. We encourage you to undertake independent research in determining what services and information will best suit your individual circumstances