SELF MANAGED SUPER FUND FACTS+

Is a Self-Managed Super Fund right for you?

ngs Super

for those who
understand the
true meaning
of wealth.

SMSFs aren't for everyone and when it comes to your retirement savings, going with the 'trend' is rarely a wise decision. There's complex legislation to be considered and important positives and negatives that need to be weighed up.

This booklet aims to give you a balanced look at SMSFs to help you answer that all important question...

SMSF – IS IT RIGHT FOR ME?

What does it mean to 'run your own fund'?

An SMSF is a trust – an arrangement where a trustee or trustees (two or more persons or a company) holds superannuation assets on behalf of the member/s of the fund. The fund must have four members or fewer and each member must be a trustee. The fund must have a trust deed and be registered with and regulated by the ATO.

So if you set up your own SMSF, you will become one of the trustees responsible for running the fund and making decisions.

As a trustee you are legally liable for your fund. There are significant penalties if a trustee fails to comply with their legal obligations. One of the biggest is that your fund could become non-complying and lose its tax concessions. You might also have to pay substantial fines out of your own pocket.

So here's the first question you should ask yourself: **'Is being responsible for a complex superannuation trust for me?'**

Do you want the trustee responsibility?

If being a trustee of your own SMSF is something you're interested in, here are some of the aspects of the 'job' for you to consider.

- **HIGH LEVEL OF TIME & INVOLVEMENT:**
  If you're a trustee, you're in charge of managing the investments, managing contractors, making decisions and overseeing the day-to-day running of your fund. It's important that you have the time and interest to do this properly. You can hire professional advisers to reduce the burden but this adds cost and the legal liability always remains with you.

- **FINANCIAL ACUMEN AND EXPERIENCE:**
  Even if you pay professional advisers, you'll want to know what you're doing and understand the advice you're given. Without this, you should probably think twice about setting up an SMSF.

- **ACCEPTANCE OF RISK:**
  Even if you receive incorrect advice from professionals, the trustees are still the ones who will be held responsible if anything goes wrong or if your fund fails to comply with legal and regulatory requirements.

The POSITIVES:

Here are some of the reasons why you might consider a Self-Managed Super Fund

1. CHOOSE YOUR OWN INVESTMENTS

SMSF trustees can choose their own investments as long as they're allowable. This can include direct property investments and other opportunities (eg: smaller, unlisted companies) that aren't always available through regular super funds.

2. POOLING RESOURCES

An SMSF must have four members or fewer. This can mean pooling funds and gaining access to investments that might otherwise only be available with higher balances.
It can also mean sharing costs. (Obviously this is not to the same extent if you were in a large diversified super fund with economies of scale.)

3. FIXED COSTS

The costs associated with running your fund are largely fixed rather than paying fees on a percentage of assets. This is a disadvantage for lower balances but may be a benefit if your balance is high enough.

4. FLEXIBILITY

An SMSF can give you greater flexibility around certain important decisions like how benefits are paid to members when they retire and how death benefits are paid.

The NEGATIVES:

1. YOU NEED A LARGE BALANCE

There's no legal minimum to start an SMSF but you often need a good size balance just to break even on some costs. Estimates vary, but experts generally say you need to aim to have a minimum balance of $200,000. In reality, that's more like $500,000 if you'll be hiring someone else (accountant, investment adviser) to research and advise on investment decisions.

2. COSTS

Don't start an SMSF because you don't like paying fees. You'll most likely be paying accounting, audit, share broking, fund manager, platform and SMSF supervisory levy fees.

And if you have individual trustees, you'll have the cost and inconvenience of changing the titles of the SMSF's assets every time there's a change of membership.

3. RISK

With regular super funds, you have no personal liability to meet the legal and regulatory requirements. Your super fund takes care of all that, along with the investment decisions. As an SMSF trustee, you are legally liable for all decisions and actions that the fund makes.

4. TIME

Actively managing the legal and administrative requirements of an SMSF takes time every week. Add to that the time needed to research investments, discuss with other members, make investment decisions, and actively manage stocks (eg: property investments with tenants).

5. LACK OF INTEREST

If finance and investing don't interest you, running an SMSF can soon become a burden.

Yes, you can hire someone to do all that for you. But that costs money and the ultimate responsibility remains with you.

6. INSURANCE

With regular super funds, most members are provided with automatic life, disability and income protection and funds use their scale to provide this cost effectively. If this cover is needed, the SMSF trustees will need to negotiate this cover for its members.

7. MANAGEMENT INTO THE FUTURE

It's important to think about the management of the SMSF into the future. Have you considered an exit strategy? What would you do upon the death of a trustee? Do you want to continue your involvement throughout your retirement?

Remember...

Don't start an SMSF just because your accountant or adviser told you to, particularly as they may benefit from the ongoing accounting work and trail income it generates.

Always seek a second opinion as to whether it's right for you and your situation.

The truth about buying property with an SMSF

Purchasing property with an SMSF is complex and there are more positives and negatives to consider.

(THE GOOD BITS)

What you need to know about property and SMSFs...

- Income tax from rents and capital gains tax can be reduced - or eliminated altogether once you're in the pension phase. (But remember – your pension investment earnings will be tax free in any complying super fund.)
- While you can't buy a property to live in yourself under an SMSF, you can potentially purchase your business premises and pay rent directly to your SMSF.
- Properties within an SMSF have their own land tax threshold which could save you money.
- You can pool money with up to 3 other members in your SMSF to purchase a property together. You'll want to make sure that you all continue to get along in the long term.

(THE NOT-SO-GOOD BITS)

- Buying property comes with big set-up costs that can eat into your super – stamp duty, legal fees, advice fees etc.
- The property you buy must be an 'arms length' property with no personal benefit to you or your family members – you can't live in it, use it as a holiday home, or rent it out to yourself or relatives.
- You'll generally need a large balance to be able to purchase property. Even if you're borrowing you'll need a 20% deposit plus about another 10% for set-up costs.
- Negative gearing is extremely difficult and may not be worthwhile within an SMSF. If you want to negatively gear you may be better off purchasing an investment property the regular way.
- Banks charge higher interest rates for an SMSF and that cost comes out of your super.
- There are complex structures and arrangements required to buy property within an SMSF. It's not for the faint-hearted.
- You can't renovate, sub-divide or develop a property held within an SMSF. Only repairs and maintenance are allowed.
- If the property you own through an SMSF grows in value, you can't leverage the equity in it to purchase more property as you can outside the super environment.
- If your income during pension phase isn't sufficient to cover your required minimum payments, you may not have the ability to sell part of the property to meet your requirements.

How can NGS Super help you?

If you still have questions about this subject, NGS Super can help you with the next step.

1.

TRY OUR ONLINE SMSF SELF-ASSESSMENT

Hop online and answer 16 questions to get a personalised view of your suitability for an SMSF based on your skill-set and retirement expectations.

Go to **www.ngssuper.com.au/profiler**

2.

TALK TO US ABOUT OTHER OPTIONS

NGS Self-Managed is an alternative that offers a gateway to direct investments including ASX-listed companies, exchange traded funds and term deposits within a low-cost, easy-to-use platform.

Call **1300 133 177** to speak to us about this option. We can also put you in touch with an NGS Financial Planner to discuss your situation in greater depth.

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