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SMSFs: eyes wide open

By Catherine Chivers
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Self-managed super funds (SMSFs) have proven to be a popular and credible alternative to other types of superannuation. Perpetual's Catherine Chivers says there are some things to look out for.

One third of Australians' superannuation money is now invested through SMSFs.

There are undoubted advantages. For business owners, for example, the ability to fund and buy real estate through an SMSF is attractive.

But SMSF's are not for everyone: complying with the relevant rules and managing the administration workload is time consuming and exacting. In this respect, the term 'self-managed' is misleading. In reality, the majority of SMSFs are supported by experts including financial advisers and accountants.

Here are five areas where you may need support when establishing and managing your SMSF.

Right trustee

An SMSF needs the right trustee structure if it is to best meet your long-term objectives. Will you use an individual trustee who is also a member? Or choose a corporate trustee? Many experts believe using a corporate trustee is best practice - but it can be more complex and more expensive. Ultimately it's a decision that depends on your SMSF's unique circumstances

Investment strategy and management

Setting, documenting and enacting the fund's investment strategy is a legal requirement. What is your strategy for accumulating assets? And will the fund's assets produce an income stream that lasts as long as it's needed? Do you know what you can and can't invest in? From a compliance point of view you need to be able to answer these questions – and even more importantly, they may have a huge influence on how you live in retirement.

If you are a business owner, you need to consider how your SMSF fits in with your longer term business plan – for example, to acquire an existing business property or to enable you to borrow to purchase a business premises more suited for your future needs? As with so many financial decisions, expert advice on fitting your SMSF strategy into your big-picture strategy can be crucial.

The right insurance

SMSF trustees are required to consider the insurance needs of its members. Some of the key questions you need to ask yourself include: how will this analysis be performed, and how will it be documented? What is the right mix of insurances, and should these be held inside or outside the SMSF? In the event of a claim, will money be paid tax effectively to dependents in the event of the death or incapacity of one of the members?

Exit plan

In the same way that good business people have an exit strategy before they start a new venture, you need to be clear from the outset about the purpose of your SMSF, who the

beneficiaries are and what your estate and succession plan is. What will happen to the fund on the death of one of the members? How will the assets be passed on to the next generation?

Compliance

Staying on the right side of the rules is a job increasingly requiring a high level of knowledge and expertise. Failure by a trustee to comply can result in financial penalties against them personally, as well as the possibility of imprisonment.

Having your eyes wide open before you establish an SMSF will give you the best chance of success - as will getting the right advice at each stage.

Perpetual's team of advisers, working with legal and tax specialists, provide advice and support on all aspects of SMSFs. So if you are thinking about whether an SMSF is right for you - or wondering how to manage your existing SMSF more efficiently - our advisers are happy to help.