

Is an SMSF right for you?

Bayside Business Network

Seminar Series

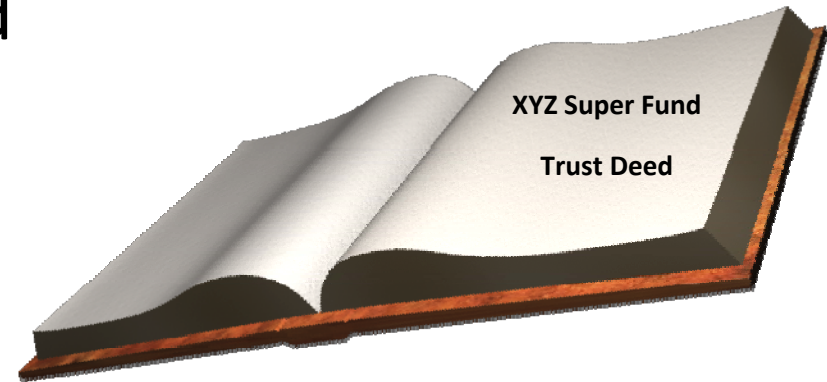
Monday, 4 April 2011

Topics

- What is an SMSF?
- SMSF History & Growth
- Advantages / Disadvantages
- 10 Common Mistakes
- 5 Steps to decide if an SMSF is right for you

What is an SMSF?

- Small superannuation fund
- Trust Deed
- 1 – 4 Members
- Controlled by Trustees / Members
 - Operation of fund
 - Investments



Considerations

- Complex
- Require considerable skills
- Knowledge
- Time
- Understand Cost vs Benefits



History of SMSF



- 435,000 SMSF's at 30 September 2010
- \$400 Billion or 31% of all super assets (\$1.28T)
- 815,399 members

History of SMSF

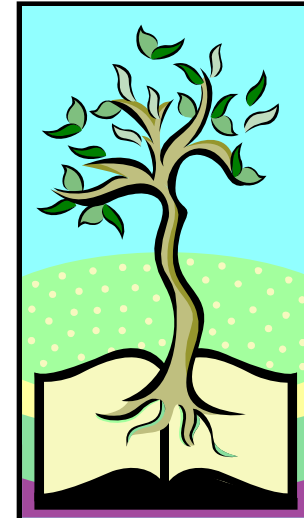
- SMSF members (on average)
 - Earn a higher income;
 - Larger superannuation balances

History of SMSF

- Investments
 - Majority of assets held directly
 - Assets Held (Approx.)
 - Shares – 31%
 - Cash / Term Deposits – 29%
 - Trusts/Managed Funds – 20%
 - Non-Residential Property – 12%
 - Residential Property – 3%
 - Other – Balance
 - Overseas investments – 0.7%
 - Artwork, Collectables, Jewellery, Metal – 0.1%

Growth of SMSF

- Fastest growing segment in super industry
 - SMSF Assets grew 20% June 2008 to June 2010
 - Establishments (2010) – 27,340
 - Wind Ups (2010) – 1,071



SMSF Investment Performance

- Over the three years to 30 June 2008, the asset-weighted average returns of the SMSF sector were higher than those of the non-SMSF sector.
- On average, small sized SMSFs lack investment diversification, suffer higher relative costs, and underperform larger-sized SMSFs.
- [www.supersystemreview.org.au/Statistical summary of SMSFs, Dec 2009](http://www.supersystemreview.org.au/Statistical%20summary%20of%20SMSFs,%20Dec%202009)

Reasons for SMSF

- Gain control over super (55%)
 - Flexibility of investments (64%)
 - Poor performance (36%)
 - Save on fees (24%)
 - Accountant's recommendation (33%)
 - Financial planners recommendation (29%)
-
- Investment Trends, Feb 2006



Advantages

- Member control
- Investment Choices
- Flexible Timing – Tax
- Estate Planning
- Fees



Disadvantages

- Time & Skill
- Compliance & Penalties
- Your money but not just yet
- Life Insurance
- Fees



10 Common Mistakes



#1 Common Mistake

- Ignore 'sole purpose test'



Retirement Benefits



Death Benefits



#2 Common Mistake

- No trustee education



Trustee Education

- Roles & Responsibilities
 - Members must be trustees
 - Eligible?
 - Trust Deed
 - Legislation
 - Investment Strategy
 - Accessing Funds
 - Paying Benefits



Trustee Education

- Investment Restrictions
 - Arms' Length
 - Related Parties
 - Collectables
 - Title
 - Location of assets
 - Investment Strategy



Trustee Education

- Contributions
 - Caps
 - Concessional
 - Non-Concessional
 - Age Limits
 - > 65
 - > 75

Trustee Education

- Benefit Payments
 - Condition of Release
 - Minimum Payments
 - Lump Sum
 - Actuary



Education Sources

- www.smsftrustee.com
- www.ato.gov.au
- www.asic.gov.au
- www.cpaaustralia.com.au
- www.charteredaccountants.com.au
- www.nia.com.au
- www.auasb.gov.au
- www.asx.com.au
- www.moneysmart.gov.au

#3 Common Mistake

- Individual Trustee
 - Death
 - Departure
 - New Member
 - Asset Titles



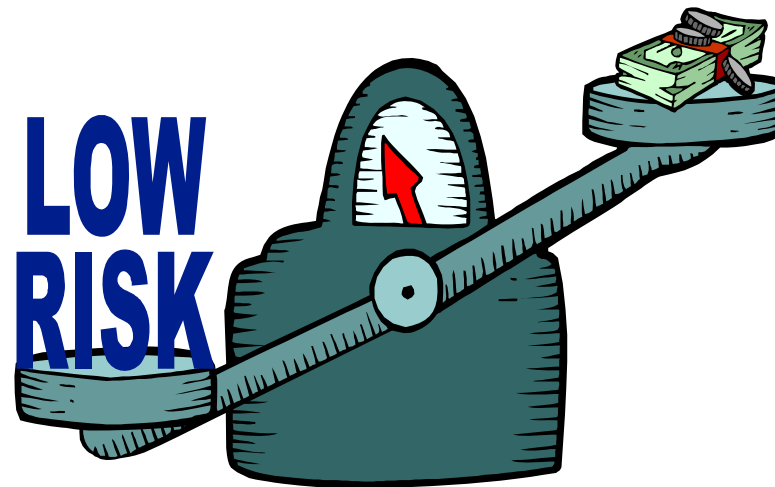
#4 Common Mistake

- Investment Strategy
 - Generic



Investment Strategy

- Risk versus Return



Investment Strategy

- Diversification



Investment Strategy

- Liquidity



#5 Common Mistake

- Loans
 - Related Parties
 - Non-arms' length
- Borrowing
 - Limited



#6 Common Mistake

- SMSF Factories
 - Loss of Flexibility
 - No Advice
- Choice of Adviser
 - 62% Accountants
 - 28% Financial Planner



#7 Common Mistakes

- Size of SMSF / Rising Costs
 - Minimum Balance \$200,000
 - Maximum Contributions \$50,000 per year



Average Cost of Managing SMSF

- 2004 Financial year

Balance

Cost

- | | |
|--------------------------|-------------|
| • \$50,000 - \$100,000 | 2.2% - 4.5% |
| • \$100,000 to \$200,000 | 1.7%- 3.5% |
| • \$200,000 to \$300,000 | 1.9%- 2.9% |

- <http://cbussuper.e-newsletter.com.au/link/id/a0139f1ea1d435e5a77d/page.html?extra=117c547c2960ffefca08>

Costs of SMSF

Initial Set Up

- Accountants fees \$2,000
 - Corporate Trustee
 - Legal Documentation
 - ATO / ASIC Registrations

- Investment strategy \$1,800



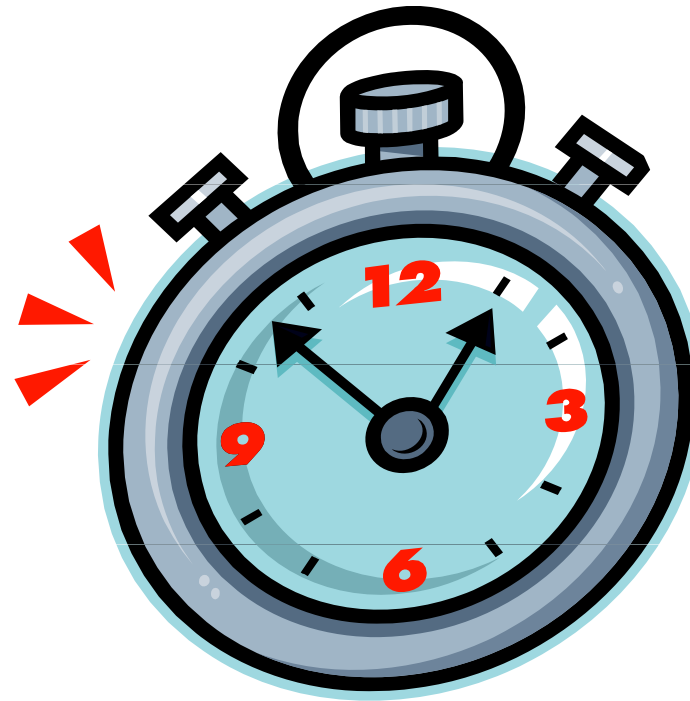
Costs of SMSF

- Ongoing fees (\$200,000 balance)
 - Tax & accounting fees \geq \$2,500 (1.25%)
 - Audit fees \geq \$500 (0.25%)
 - Investment strategy review \$1,000 (0.5%)
 - Investment management fee – 1% of funds



#8 Common Mistake

- Time



#9 Common Mistake

- Separate Assets
 - Personal
 - versus
 - Superannuation



#10 Common Mistake

- Non Compliance
 - Late lodgement of SMSF returns
 - Breach Legislation
 - 45% Tax



#1 Common Mistake

- Ignore 'sole purpose test'
 - UP TO \$200,000 FINE!!!
 - AND/OR
 - UP TO 5 YEARS IMPRISONMENT
- NON-COMPLYING

What Investments?

- Generally, anything
- Derivatives
 - Limited
- In-House Assets
- Related Party
- Market Value
- Name of Fund Trustee



Is an SMSF is right for you?

5 Steps



5 Steps

1. Funds Available / Contributions
2. Complete SMSF trustee education
www.smsftrustee.com
3. Estimate Time Commitment / Availability
4. Compare Costs / Benefits
5. Seek Advice

Our View

JDFA does not recommend SMSF to its clients unless:

- Investing in property or collectables
- Minimum balance - \$200,000
- Minimum 2 members
- Maximum contributions \$50K per year
- Experience managing share portfolio

References

- www.supersystemreview.gov.au
- <http://ato.gov.au/superfunds/content.asp?doc=/content/00271397.htm&page=6>
- <http://ato.gov.au/superfunds/content.asp?doc=/content/00271397.htm&page=6>