Practical Systems Super
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WHY CHOOSE A SELF-MANAGED SUPERANNUATION FUND (SMSF)?

Roughly one-third of all superannuation monies in Australia are contained in self-managed funds and these have continued to increase in popularity with consistent growth over the past 10 years. There are currently around 600,000 SMSF's in Australia. This fact sheet discusses some of the reasons you might choose to manage your own superannuation fund.

For an employee in the private sector or a business person, the options for superannuation can include:

1. **Industry Funds** – these are so called "profit for members" funds usually designed for people in a particular industry – for example, *cbus i*n the building industry and *HESTA* for the health and community services sector
2. **Retail Funds** – open to the public and run by financial institutions such as banks and insurance companies
3. **Corporate Funds** – established by a particular employer and only open to their employees
4. **Self-Managed Superannuation Funds ("SMSF")** – "do-it-yourself" funds controlled by the members

The reasons for choosing the self-managed route are varied but can include:

a. **Control.** The members of the fund are also the trustees of the fund and therefore have ultimate control over all aspects of the operation of the fund including investment policy and administration.
b. **Flexibility.** SMSF's can be far more flexible and personalised in their operations. For example, SMSF's have the ability to:
    - Transfer business real property and listed securities owned by members to the fund
    - Invest in projects in conjunction with business associates or in other non-traditional asset types
    - Take advantage of the of the provisions that effectively allow the "bring forward" of next year's concessional contribution cap and enabling the member to claim 2 years contributions for tax purposes
    - Customize life insurance arrangements to the precise requirements of individual members
    - Loan (up to 5% of assets) to related business entities

Note however, that SMSF's cannot generally run a business as that could be taken as not meeting the "sole purpose test".

c. **Convenience.** As members are the decision makers and administrators (including controlling the fund bank account) they can effect transactions instantly – such as short notice changes to pension payments, contributions, commence a transition to retirement income stream, implement contribution splitting, etc.
d. **Administration Costs.** Generally, industry and retail funds can charge between 1.0% and 2.0% of account balance in administration type fees and often there are other fees "hidden" within investment returns. The administration costs for an average SMSF would be typically less than 0.5%.
e. **Effective succession planning.** A self-managed fund provides more options for leaving account balances in the fund for the benefit of surviving dependents and members can effectively create a strategic estate plan outside the member's will. This can include using the fund as a so called "family superannuation fund" involving other family members (subject to the limitation of the number of members).
f. **Ability to utilize borrowings for investment "gearing".** This can be for the purchase of property and shares and unit trust investments via a "Limited Recourse Borrowing Arrangement". Note that these arrangements can be complex and appropriate professional advice should be sought before considering this approach.

Note that there are a range of responsibilities associated with running a SMSF. For some people, being more engaged with their retirement fund can be very rewarding while others may find it a burden. It is therefore important that individuals get appropriate professional advice and fully consider all aspects before deciding on the self-managed option.

BOB LOCKE – CHARTERED ACCOUNTANT & SMSF SPECIALIST

Bob's career spans more than 40 years in accounting, taxation and financial services. His specialty is self-managed superannuation funds and the development and management of financial accounting software.

Bob has experience as a partner in a large accounting firm, as administrator of a large corporate superannuation fund with more than 1000 members and as owner/founder of Practical Systems