Super self-drive

Getting behind the wheel of your own super

While most people 'catch the bus' to their retirement goals in a large managed fund, many are now discovering the 'self-drive' alternative of a self managed super fund (SMSF). The personal control and potential tax and cost savings can be substantial, so it's worth considering if it could be right for you.

For many working people, superannuation sits alongside the family home as the largest investment that they will ever own. An investment of that importance deserves serious consideration about the best way to manage it! Driving your super directly could be a better way to achieve your desired retirement goals and the information below may help you consider if it's appropriate for you.

The self-drive revolution

Changes in super regulations in recent years have opened up opportunities for individuals to set up their own SMSF and seek the tax and investment benefits they can bring. Statistics indicate that a rapidly increasing number of Australians are taking up this option:

- almost 30,000 new self managed super funds were launched in the year to March 2010
- there are now over 400,000 self managed funds representing more than 767,000 individuals
- self managed funds have over $400.1 billion in assets

So what are the real benefits of being in the driver's seat?

The benefits can be compelling! In essence a self managed fund gives you the freedom to make your own decisions over what your super is invested in and how it's managed. Specifically, there are three key advantages to consider:

1. greater flexibility to personalise your investment portfolio, including the option to invest directly into shares or real estate
2. the potential to explore attractive estate planning and tax saving opportunities
3. the ability to achieve a flatter cost structure, which is not simply related to a percentage of funds invested.

Is it right for you?

Deciding whether self managed super is right for you needs careful consideration of some critical issues. From a cost saving point of view, you will need to consider the value of your assets, either alone or in combination with a partner, in order to ensure running a SMSF is financially viable. Funds are also required to have less than five members and all members must be either trustees of the fund or directors of a corporate trustee.

While there has been a general legislative shift to giving people the opportunity to set up their own funds, stringent government rules and regulations still apply on the running of these funds. The key principle is that the fund must be maintained for the sole purpose of providing retirement benefits. This has led to a strong regime of record keeping and reporting requirements and the ultimate responsibility for compliance rests with the individual. Serious penalties apply for failing in these responsibilities.

Apart from the compliance aspects, you need to seriously consider whether you are prepared to take on the responsibility of choosing your own assets and taking on the investment risks that can go with it.

The way forward - get the right advice team behind you

The attractions are compelling, but the responsibilities are onerous - so what is the best way forward if you are considering a SMSF? We believe that making self managed super successful needs a team approach involving you, your accountant and a qualified financial adviser. This enables you to achieve the positive benefits of greater control, while utilising specialist skills to take care of critical responsibilities, saving you time and worry.

While either of these professionals can manage the set up, administration and compliance aspects, they each bring additional specific skills that can optimise the operation of your fund. Your accountant needs to be involved in completing the vital fund valuations and tax returns, while your financial adviser specialises in investment strategy, asset structuring and the movement of funds to and from other superannuation or pension funds.

Self-drive super in practice

Gary and Beth are married, in their 40s and partners in their well-established picture framing business. After leasing the business premises for many years, they have the opportunity to purchase the property for $200,000 and benefit from the potential for future capital growth. While they have $200,000 equity in their home, they are reluctant to borrow up to their limit. They have $210,000 in a commercial super fund between them and currently pay $5,000 each a year in super contributions.

After meeting with their financial adviser, Gary and Beth decide to set up a SMSF with their existing super money. They use $100,000 from their SMSF – combined with $100,000 from their home equity – to purchase the business premises. Their business pays commercial rent, half to the SMSF and half to Gary and Beth.

As future super contributions are made, the SMSF will progressively buy out the couple's share of the property and, once this is done, the fund will diversify further into other assets. Gary and Beth achieve a flexible structure where they control their financial future and also save on fees as ongoing costs are not percentage-based increasing as their super grows, like they were in the commercial super fund.

Source: Super Concepts Pty Ltd, Managing your own super, a question of control booklet.

We are ready to help

We are equipped with the knowledge and expertise to help you get the most out of your SMSF, by showing you how to best set it up and developing a sound investment strategy that reflects your personality. We can work with your accountant to create and manage a super fund that puts control in your hands, without all the compliance hassle and risk.

Talk to us today about how it could work for you, contact RI SEQLD on 1800 065 151 or email enquire@riseqld.com.au

*according to average figures from the Australian Tax Office.