There are many different ways to invest into the superannuation environment each with its own advantages and disadvantages. To help you decide what is best for you I have outlined some of the key issues that you need to consider.

**Industry/Employer Super Funds**

**Benefits**

- Low Cost
- Investment Choice (Although can be limited)
- Can invest in direct shares (Not all shares listed on ASX as the list of shares is usually limited)
- Offer accumulation and retirement income products (Not all offer TTR pensions)
- Will accept all types of contributions
- Allow Switching
- Administer all of the paperwork and compliance
- Online Access

**Disadvantages**

- Accessing funds can be difficult if your employer pays into the fund
- Can be locked in via an EBA
- Investment choice is usually limited
- Bureaucratic
- Not included on financial planners approved products lists
- Cannot own direct property
- Limited Control

**Retail Master Trusts/ Retail Funds**

**Benefits**

- Wide investment choice
- Wide selection of direct shares
- Full accumulation and retirement income products
- Will accept all types of contributions
- Access to wholesale investment funds
- Administer all of the paperwork and ensure compliance
- Online access
Disadvantages

- Higher costs
- Bureaucratic
- Have to maintain a cash account
- Cannot own direct property
- Limited Control

Self Managed Super Funds

Benefits

- Can own direct property
- Can own any listed or unlisted share
- Can use tax effective investments to minimise tax
- If sufficient funds can access wholesale managed funds directly
- Can be segregated to pay pensions and remain in accumulation
- Can borrow to buy property (Complex and needs specialist advice)
- Can accept all contributions
- Members have total control
- Could be more cost effective than the other options

Disadvantages

- Same rules apply to SMSF as any other super fund
- Significant responsibility on trustees to ensure fund stays compliant
- Subject to ATO audit at anytime
- Accountant who sets it up may not be a specialist in this area
- Ceding control and responsibility to others, such as your accountant
- Not fully understanding your responsibilities and potential ongoing costs
- More members equals more complex

The following pages outline the basics that you need to know if you are considering setting up your own SMSF.
ESTABLISHING A SMSF

In simple terms, Self-Managed Superannuation Funds (SMSF) are essentially for family members or close business associates looking to take tighter control of their superannuation savings.

Briefly, a SMSF is defined in the following way:

- Has 4 members or less
- All members must be trustees and all trustees must be members (except for single member funds if a corporate trustee is put in place.)
- Where the trustee is a company, all members must be directors of the trustee company
- There must be a family relationship between members where a member of the fund is an employee of another member
- The trustee cannot receive any remuneration for his/her services as a trustee.

There are a number of trust law and legislative requirements in setting up a self-managed superannuation fund. It is advisable to seek advice from an accountant or superannuation specialist to simplify the process.

Benefits

- Ability to actively participate in the management of the fund, including the feeling of safety and satisfaction that comes with investing your own retirement savings and acting as trustee of your own fund.
- Reduced reporting requirements.
- The flexibility to tailor the fund to your own personal circumstances in relation to areas such as estate planning. Clients can include family members including the spouse and children in the fund, as long as there are no more than 4 members.
- Control over costs that can be achieved by running your own fund.
- The ability to reduce the amount of tax paid by the fund by investing in assets that are tax effective or pay franked dividends where the imputation credits can reduce the fund’s taxation liability.
- The ability to invest in direct assets such as listed share or property and also the opportunity to hold non-traditional assets such as antiques (subject to the fund’s investment strategy.

Possible Disadvantages

- Not meeting your responsibilities as a trustee.
- Failing to make appropriate investment decisions.
- Greater scrutiny by the Australian Taxation Office.

To establish your fund there are a number of steps that need to be followed:

**Step 1 – Obtain a Trust Deed**

The first thing you need to do is to have a trust deed prepared. The deed (commonly referred to as the ‘governing rules’ of the fund) evidence the existence of the trust and establishes the rules of operation of the fund. The deed should be correctly drafted to achieve the fund’s objectives.

**Step 2 – Appoint Trustees**

All superannuation funds are required to appoint trustees. Trustees are responsible for ensuring the fund is properly managed and complies with the SIS rules and other legal obligations.
Step 3 – Elect to become a regulated fund
The fund must elect to be ‘regulated’ under SIS if the fund wishes to receive concessional taxation treatment. The trustees of a new SMSF must, within 60 days after establishment of the fund, give the Regulator a notice of election to be a regulated superannuation fund. Once a fund has elected to become regulated, the decision cannot be reversed.

Step 4 – Obtain a Tax File Number (TFN)
A TFN is a unique number issued by the ATO for each taxpayer. The trustees of a SMSF must obtain a TFN for the superannuation fund.

Step 5 – Obtain an Australian Business Number (ABN)
The ABN is the new public identification system being introduced to support business to government interactions across all agencies. An ABN will be allocated to superannuation funds when they lodge an Application to Register for the New Tax System form.

Step 6 – Develop an Investment Strategy
The trustees of every SMSF are required to prepare and implement an investment strategy for the superannuation fund. The strategy must reflect the purpose and circumstances of the fund and consider:

- Investing in such a way as to maximise member returns having regard to the risk associated with holding the investment;
- Appropriate diversification and the benefits of investing across a number of asset classes (e.g. Shares, property, fixed interest) in a long term investment strategy; and
- The ability of the fund to pay benefits as member reaches retirement and other costs incurred by the superannuation fund.

An appropriate investment strategy will set out the investment objectives of the fund and detail the investment methods the fund will adopt to achieve these objectives.

Trustees must make sure all investment decisions are made in accordance with the documented investment strategy of the fund and should seek professional investment advice and appoint an investment manager in writing.

General Responsibilities of SMSF Trustees

Amongst other things, SMSF trustees have a responsibility to:

- act in the best interests of fund members
- keep the assets of the fund separate from other assets
- retain control over the fund
- keep members advised of all significant matters
- develop and implement an investment strategy
Responsibility to Develop an Investment Strategy

The Superannuation Industry (Supervision) Act 1993 [Section 52 (2)(f)] also requires trustees of a superannuation fund to prepare an investment strategy. This strategy must reflect the purpose and circumstances of the superannuation fund, and therefore may need updating from time to time when circumstances change. The strategy must have regard to at least the following:

- The risk involved in making holding and realising, and the likely return from, the trust’s investments having regard to its objectives and its expected cash flow requirements;
- The composition of the trust’s investments including the extent to which the investments are diverse or involved the trust in being exposed to risks from inadequate diversification;
- The funds liquidity needs;
- The ability of the fund to discharge its existing and prospective liabilities;

Other Related Responsibilities

In addition, trustees are responsible for:

- Selecting investments for inclusion in the strategy that are consistent with the fund’s objectives.
- Monitoring on an ongoing basis whether investments remain consistent with the investment strategy.
- Monitoring on an ongoing basis whether the investment strategies remain appropriate for the fund; and
- Keeping the member/s informed of changes to investment objectives and strategies.

Investment Restrictions

Any investments made in the future should be consistent with the investment strategy. Investment in derivatives is permissible on the proviso that it does not contravene the investment objectives and strategy, and that a Risk Management Statement has been prepared.

Important information

This information is of a general nature only and is not intended to constitute personal advice. It does not take into account your particular investment objectives, financial situation or needs and, accordingly, you should consider the appropriateness of this information in light of your own circumstances. We recommend that you obtain professional taxation advice before undertaking financial transactions. Where appropriate, you will be provided with a Product Disclosure Statement in relation to the product recommended to you. You should read this document before making any decision to acquire the product in question.

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