11 THINGS TO CONSIDER BEFORE STARTING YOUR OWN SELF MANAGED SUPER FUND

Introduction

A Self Managed Superannuation Fund (SMSF) is designed for individuals who want greater flexibility and control of their investments to optimise their wealth in retirement.

While a SMSF functions in the same way as other types of superannuation funds, the biggest difference is that the members of a SMSF are also the trustees – they hold the assets, decide how the fund operates and control how their contributions are invested. As SMSF trustees, members are also responsible for the management of their fund and ensuring that all compliance and legal requirements are met.

Choosing a SMSF as the vehicle to fund your dream retirement is a major financial decision. What are the implications of getting your SMSF wrong? Can you afford to make a mistake?

The simple answer is that there's no need to do it all yourself. In this guide, it outlines the most important 11 things you need to consider before starting your own self managed super fund.

1. Do you have the skills to control your own investments?

When you set up an SMSF you have to make all the investment decisions. You either do this yourself or you pay someone else to do it for you. If you pay someone else then you will incur fees for that and that is really no different to leaving your money in a retail fund.

If you want to buy property then this will be easier than if you want a portfolio of domestic and international shares. If however, you are competent to choose your own direct share portfolio then an SMSF may prove way more cost effective.

2. Do you have a specific investment in mind that is only available in an SMSF?

If you are thinking that you want an SMSF simply because you are not happy with the performance of your current super fund then there may be other alternatives better suited. If however, you want to own a specific investment that is only available through an SMSF then this may be your only option.

Usually this would be direct real estate particularly your own business premises but could extent to specific listed shares or a unit trust/managed fund investment.

3. Do you have **experience** running your own entities?

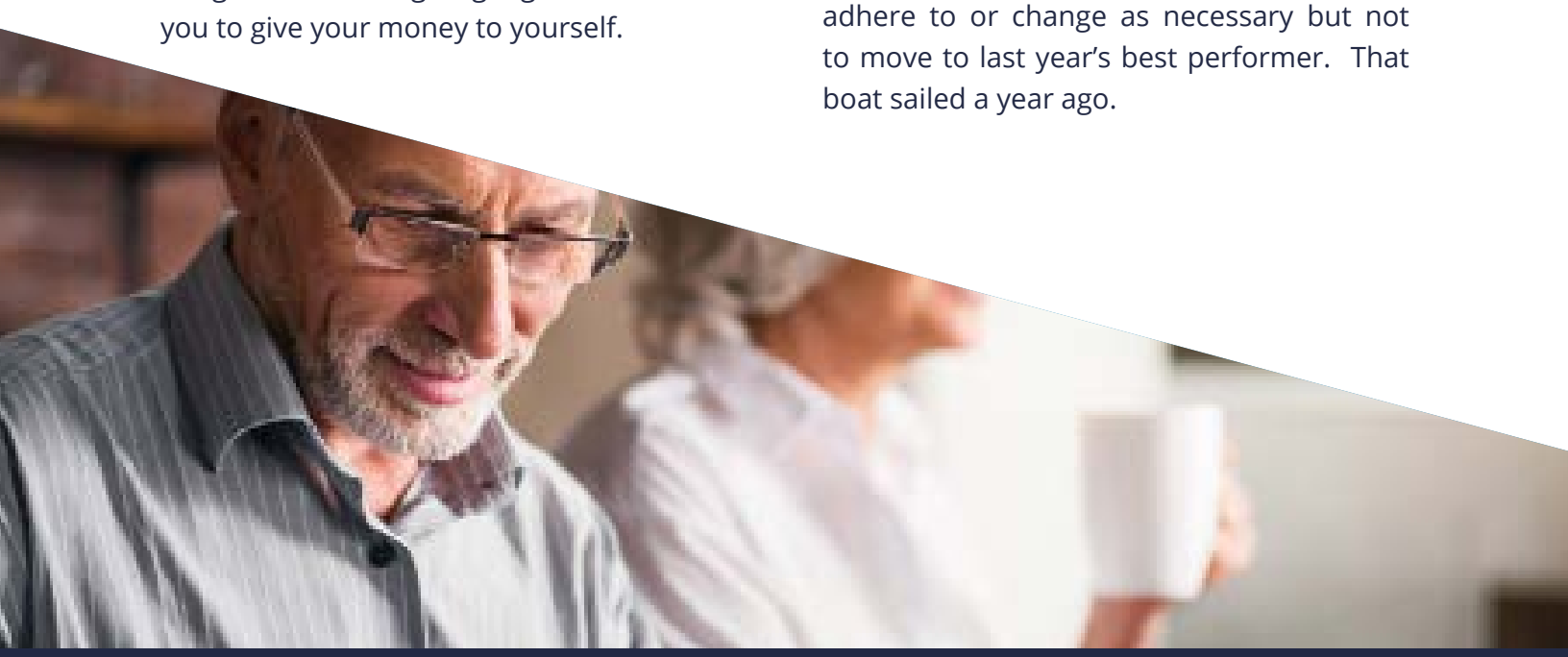
When you set up an SMSF you become the trustee of a superannuation fund regulated by federal law. There are onerous administrative requirements in being the trustee of a regulated superannuation fund and it will take a lot more of your personal time to perform the duties of a trustee.

The law doesn't allow you to "slack off" just because it is your own money you are investing. Quite the opposite in fact because the government is giving big tax benefits for you to give your money to yourself.

4. Are you a disciplined investor?

We see a lot of people keep chasing the next big thing or they keep changing to the thing that has just been the best performer. Inexperienced investors regularly lose money "chasing returns" bey moving to investments that have performed better over the past 12 moths as this is often a precursor to that investment underperforming in the next 12 months.

And then the investment they sold is the best performer. You need to be a disciplined investor with a solid long term plan that you adhere to or change as necessary but not to move to last year's best performer. That boat sailed a year ago.



5. Is it cost effective to have an SMSF?

There is no hard and fast rules as to how much you need to put into an SMSF to make it more cost effective. If your decision to invest through an SMSF is cost driven then you should make a detailed and informed comparison as to the costs of an SMSF versus a retail/industry fund.

This is not something that is done easily as you need to drill down into each investment and see what the costs are of that investment. Industry funds will tell you that they have very little fees which is certainly correct.

But who pays all the expenses of the industry funds? (seen a Melbourne Storm jersey?). And then who manages the money of an industry/retail fund and how does that fund manager get paid?

Only an experienced accountant can read the annual report of an industry fund to ascertain the "expenses" being allocated against the members returns.

6. Do you know Superannuation Law, Tax Law, Trust Law and the Corporations Law?

If you wish to manage your own superannuation and not take advice you need to be across the relevant legislation as well as case made law regarding superannuation, taxation and trusts.

You need to know that the trust deed you have is the best you could have as it can severely impact on your ability to run your fund. You also need to know that the law will override the trust deed so reading your deed is only about 10% of what you need to understand.

7. Are you eligible to become a SMSF member?

This is a black and white answer. You either are or you aren't able to be a member of an SMSF. If you are currently a bankrupt or have previously been convicted of an offense of dishonesty (e.g. fraud, shoplifting) then you are not allowed to set up an SMSF. If you have been convicted of an offense of dishonesty you need to seek advice as to how you can get approval to set up an SMSF.

8. Understand that an SMSF is not for personal use?

The government provides substantial taxation benefits with superannuation. It does this because it wants people to fund their own retirement and save paying age pensions for what is now as long as 20 years on average (a 65 year old is expected to live to at least 85).

Because of this the government wants to make sure that you don't simply get hold of your super and use it for current purposes. There are many rules in place to ensure that all your investments are made for retirement purposes only.

9. Understand that penalties apply?

Further to point 8 above, where you break these rules there are substantial penalties that the tax office can impose. And these penalties are imposed on you personally so you can't use your super to pay them.

10. Do you intend to borrow to invest?

Borrowing to invest is not for everyone but for those where it is an SMSF is the only option you have if you want to borrow to invest inside your superannuation.

11. Are we really trying to scare you off?

You might have read through the last 10 items and thought we don't want anyone to have an SMSF but this is not the case. There are more than one million people in Australia that have an SMSF account.
Many of these people have benefited greatly for the advantages offered to them from an SMSF over a retail system. But then there are also a large number of people who have created a financial disaster for themselves. To ensure that you aren't one of those latter people you merely need to take advice from an SMSF Expert. Call or email us today

Why Seek Expert Advice?

The SMSF Expert is a national network of 70+ qualified accountants specialising in Self Managed Super Fund advice and strategy.

Licensed under an Australian Financial Services Licence (AFSL), our trusted and experienced advisers are qualified to provide strategic SMSF advice as well as set up, administer, and assist with the investment decisions of your SMSF.

Engaging expert SMSF advice will save you from making unnecessary mistakes and help you to optimise your SMSF – all the while, you retain complete control over how your money is invested.

When you engage expert SMSF advice, we make sure:

1. You select the right trustee, have the right trustee model in place and avoid future issues.
2. You complete all legally required documents.
3. Your investment strategy complies with the law and the annual tax audit.
4. Your SMSF is suitably set up to serve your best interests in retirement.
5. You receive the latest SMSF knowledge, investment insights and technical support as and when you need.

Contact Us

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