Self-Managed Super Fund: Is it right for you?

A self-managed super fund (SMSF) can provide you with control of your retirement savings, investment flexibility, tax efficiencies and cost advantages in some cases. However, it is not for everyone, and you should carefully consider whether it is appropriate before starting one.

To work out if an SMSF is the appropriate option for you, follow this guide to help you work out:

- If this type of fund is right for you, and
- The things you will need to do to run it successfully.

1. Consider your options and seek professional advice

You should consider all your options before deciding whether to manage your super directly. A licensed financial adviser can help you understand what an SMSF is, the costs and requirements to set one up and keep it running, recommend investment options and identify risks.

Some financial advisers may recommend a specialist SMSF service company to help you setup up your SMSF and assist you with fulfilling your administrative requirements. Tax agents or accountants can also help you establish an SMSF, and assist you with its structure, establishment, and operation.

2. Cost, time and skill

Running an SMSF is a major financial decision that requires your ongoing attention. If you decide to set up an SMSF, you are also a trustee responsible for making all decisions related to the fund.

A professional can advise and assist you, but you remain personally liable for all decisions made, even if you receive help.

As a trustee, consider:

- Whether you are confident and knowledgeable in financial investments, and
- Whether a SMSF administered by you will do as well, if not better, than other super funds, after taking into account the costs of running a SMSF.

Depending on these considerations, you may be better off leaving your super in a fund that is managed by professionals.

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SMSF costs can include brokerage, use of trustee/accounting/administration services and arranging an independent audit of the fund each year. You'll also need to pay an annual supervisory levy to the Australian Taxation Office (ATO).

If you wish to reduce the expenses of your SMSF by completing some administrative tasks yourself, care should be taken regarding non-arm's length income[1].

According to research conducted by Rice Warner, SMSFs with $200,000 or more are competitive with both Industry and Retail funds even for full administration[2].

For more information on the structure of an SMSF, refer to **'Self-Managed Super Fund: how it works'** fact sheet.

3. Maintain your knowledge of super and tax laws

Super funds, including SMSFs, receive significant tax concessions; however, you must follow super and tax laws to receive them. These laws can change on an ongoing basis.

SMSF assets are maintained solely to provide retirement benefits; they cannot be used for your own personal benefit on a day-to-day basis. Below are some key obligations/duties you have as trustee of a SMSF:

- Always act honestly in all SMSF matters.
- Always act in the best interests of all SMSF members and exercise skill, care and diligence in managing your SMSF.
- Take actions to protect SMSF assts and manage them separately from your own personal assets.
- Do not enter into transactions that circumvent restrictions on payment of benefits, and ensure that SMSF money is only accessed by members when the trust deed or law allows it.
- Formulate and execute an investment strategy that considers all circumstances of the fund. Regularly review and update the investment strategy as the members' financial situation, needs and objectives change.
- Ensure the SMSF doesn't lend its money to friends or relatives or buy residential property from a related party.
- Maintain proper and accurate tax and superannuation records, e.g., minutes of all investment decisions, and allow members access to these records.
- Comply with reporting obligations to the ATO, e.g., lodge tax returns, report any changes to trustees, directors or SMSF members, comply with reporting obligations if paying superannuation benefits, lodge a business activity statement if the SMSF is GST-registered.

4. Trust deed and investment strategy

A trust deed stipulates how an SMSF is administered and the investment strategy used. You should review the investment strategy regularly, and update it as required, to ensure it continues to meet the changing needs of fund members.

One strategy may not suit all members, especially where they are in different life stages. A retiree may benefit from reducing their exposure to high-risk investments in favour of protecting their capital, while someone accumulating retirement savings at a younger age may seek riskier investments to maximise the potential for growth.

You should also consider how insurance could protect the fund's assets when you form your investment strategy.

1. Australian Taxation Office, Non-arm's length income https://www.ato.gov.au/individuals-and-families/super-for-individuals-and-families/self-managed-super-funds-smsf/tax-on-income/non-arm-s-length-income
2. Rice Warner, Costs of Operating SMSFs 2020 https://www.ricewarner.com/wp-content/uploads/2020/11/Cost-of-Operating-SMSFs-2020.-Your-Industry-takeaways_23.11.20.pdf

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5. Administrative obligations

Part of your obligations as a trustee include proper and accurate record keeping. Take minutes of your investment decisions and whether all trustees agreed with the decision.

If SMSF investments, or the fund, do not satisfy ongoing compliance requirements, other trustees could act against you for failing to be diligent in your duties. Your records must be made available to an appointed auditor each year, and you must provide the documents to the ATO when requested.

Certain aspects of your fund must be reported to the ATO when they happen, so ensure you are familiar and comply with these requirements.

For more information on choosing a trustee structure and ongoing trustee obligations, refer to **'Self-Managed Super Fund: Trustee duties and obligations'** fact sheet.

Here are some advantages of an SMSF:

- You have control over how, where and when your superannuation money is invested
- Depending on the size of the fund, sometimes the cost of running a SMSF can be relatively cheaper than a larger, public offer fund.
- SMSFs offer the potential to use tax saving strategies not possible in other types of funds, e.g., the ability to defer the purchase or sale of an investment may provide a reduction in taxable income of the fund.
- An SMSF gives the trustee the unique option to make investments that are not available to other types of super funds. For example, SMSFs can purchase business real property from members and lease it at market rates to a related party.
- SMSFs can give you certainty for your estate planning. Intergenerational transfer of SMSF assets can also happen where other members of the family also belong to the fund.

Here are some disadvantages of an SMSF:

- You must ensure your fund complies with regulations that can change at any time. The risk of non-compliance with the superannuation, corporations, trust and taxation laws may be greater if you lack access to specialist knowledge.
- You must administer the fund, including member statements, lodging an annual tax return, and arranging an independent audit annually.
- As a trustee, you are personally liable for all decisions made and are bound by law to responsibly manage the fund. You could face personal litigation from other members of the fund if it is not appropriately administered. The ATO can also impose penalties against trustees who breach their obligations. These penalties cannot be paid for or reimbursed with SMSF assets.
- You are responsible for the fund's investment strategy. A professional fund manager with investment expertise and resources could outperform your SMSF over the medium to long-term in comparison.
- You do not have access to a dispute resolution scheme, such as the Australian Financial Complaints Authority. Where SMSF disputes arise, trustees can consider alternative dispute resolution methods, such as mediation or court, at their own expense. Depending on the nature of the dispute, they may have access to other complaint mechanisms, such as the Financial Ombudsman Service Limited, or the Credit and Investments Ombudsman.
- SMSFs are not subject to the same government protections that are available to other super funds, such as statutory compensation in the event of theft of fraud.