LIME SUPER
THE SELF MANAGED SUPER SPECIALISTS

5 THINGS YOU MUST CONSIDER
WHEN SETTING UP A SELF MANAGED SUPER FUND

So – you have made the important decision to take control of your super and set up your own Self Managed Super Fund (SMSF). Here are the important issues you should be considering.

1. Who will be the trustee(s) of your SMSF?

Every super fund has one or more trustees. The trustee(s) can either be a company or individuals. It is slightly cheaper to have an individual trustee structure. But that is where the benefits end. We generally recommend having a company as trustee because:

- It reduces the administrative burden if you want to add or remove members from the fund.
- It lessens the chance that you will accidentally mix up your superannuation and personal affairs, which can have significant consequences
- It will make it easier for you to borrow money if you want to buy property in your SMSF
- It is easier for your fund to operate if you can't make decisions yourself (ie if you lose mental capacity).
- It provides you with limited liability if you get sued

2. Who will be the members of your fund?

Your SMSF can have up to 4 members. Who will they be? Will it be just you? Or your spouse as well? And how about your children? Other family members? Friends?

Most commonly SMSF's will have 2 members – husband and wife. It makes sense to bring your spouse into the fund. It usually doesn't cost more to have another member. So by pooling your assets you can avoid paying 2 lots of administration fees. You might also find you can invest in a better way by having a larger pool.

Some people like to bring children into the fund to teach them about investment and the importance of saving. This has its benefits. Be aware, though, that children and parents might have very different risk appetites and investment objectives. Children could be saving for retirement which might be 40 years away. Whereas parents will be a lot closer to retiring, or might already be retired. If you have more than 2 children then you won't be able to bring all of them and your spouse into the fund – the maximum number of members is 4.

We generally do not recommend not bringing friends and other relatives into the fund. If you do then you need to make sure you have very clearly agreed rules in place to cover different scenarios. For example, how will you agree what assets to buy and sell? What if someone wants to leave the fund? What if someone else wants to join the fund? How will you select your service providers?

3. How will you invest your money?

The way you invest your money will make the difference between retiring comfortably and living on the age pension. You should consider factors such as your age, assets, income, investment experience, and comfort with investment volatility. Then you will need to select assets across the various asset classes – shares, property, cash, fixed income. Don't forget you are probably investing for a long period. While shares and property might exhibit some volatility, they are likely to perform well in the long term and should therefore form a large part of your portfolio.

If you don't trust yourself to select a quality portfolio of investments then you should consider seeking professional advice from someone that is not connected to any fund managers.

4. What will you do for insurance?

Insurance is often forgotten, yet it is extremely important. You probably have some life and income protection insurance through your existing super fund. When you move your super out of that fund into your SMSF you will lose your insurance cover.

Now is a good time to have your insurance reviewed. A good financial adviser will be able to identify how much cover you need, what type of cover you need, which insurer has the best product to meet your needs, and how the insurance should be structured. The structuring is extremely important, a poorly structured insurance policy can be very costly. Financial advisers specialising in SMF's will be across the important issues.

5. How will you administer your SMSF?

Unless you are very knowledgeable in the field of superannuation you will need someone to help you with the setup and ongoing maintenance of your fund. This includes preparing documents, recording decisions, preparing financial statements and lodging your tax return.

Many accountants claim to be able to perform this function. Some do it better than others. Keep in mind that accountants are generalists. They are good at personal and business tax returns, GST and possibly audits. Super Funds are more complex and the amount of money involved is significant. So it is important to use a provider with deep SMSF knowledge. Your personal or business accountant may well be out of their depth. They won't admit it and you will suffer the consequences.

A good alternative is to use a specialist SMSF administrator. Not only will they do the basics, they will probably be able to take a lot of the work away from you eg setting up bank accounts, arranging your rollovers, receiving your SMSF mail.

Now you should have an idea of some key decisions to be made. If you think you know the answer to all of these questions above then you are well on the way to setting up your own SMSF. If not – then make an appointment and we can help you work through these issues. Getting them right up front will make a big difference. Unfortunately too many people jump in without thinking through these issues properly.

The first meeting is on us. We can be contacted on 1300 546 300 (1300 LIME 00).

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General advice warning
The information contained in this article is of a general nature only and may not be appropriate for your personal circumstances. You should consult a financial adviser or other qualified professional before acting on the information contained in this article.