

What do you need to consider?

Setting up an SMSF can be complicated. Not getting it right can materially affect your financial situation and retirement plans.

The first question you need to be sure about is whether an SMSF is the right fit. Seeking specialised financial advice can help you determine this answer. Some considerations include:

Low balances

You must ensure you have an appropriate superannuation balance before considering an SMSF. While a low balance can be a red flag, it is not always a barrier to entry. However, in many cases, establishing an SMSF with a starting balance of \$200,000 or below may not be in your best interests. This is because SMSFs tend to be more cost efficient with larger balances.

Motivation

You must also understand your motivation for establishing an SMSF. The most common motivation SMSF trustees indicate is control. Control of an SMSF allows individuals to have a wide range of investment choice, flexibility and engagement with their superannuation. However, superannuation law is complex and you need to ensure your ambitions are allowed by the regulations and can be achieved in an SMSF.

Costs and time

SMSFs incur a wide range of costs in establishment and the day to day running of the fund. Ensure you are across the estimated establishment, accounting and audit costs that will be incurred by your SMSF. Speak with your advisers so you understand the other incidental costs, which unlike large super funds generally occur with fixed rates rather than as a proportion of your balance.

SMSFs also require dedicated attention from trustees which will take time out of your daily life to manage. Understanding from the outset your legislated responsibilities and obligations before establishing an SMSF is important.

Please Note: Many of the comments in this publication are general in nature and anyone intending to apply the information to practical circumstances should seek professional advice to independently verify their interpretation and the information's applicability to their particular circumstances.

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Establishment process

Once you have decided that an SMSF is right for you, you must engage in the establishment process. A specialist SMSF adviser is best person to help you choose a trustee structure, select a trust deed, complete ATO registration and fund set up.

Investment Strategy and Insurance

Upon establishment you must also create an investment strategy which must be regularly reviewed.

Your investment strategy should be in writing and must consider:

- Diversification (investing in a range of assets and asset classes).
- The liquidity of the fund's assets (how easily they can be converted to cash to meet fund expenses).
- The fund's ability to pay benefits (when members retire) and other costs it incurs.
- The members' needs and circumstances (for example, their age and retirement needs).
- Considering whether to hold insurance in your SMSF.

Property investment

It is also common for SMSF trustees to be motivated by investing in property when establishing an SMSF. You should be sure that any investment in property, particularly when gearing is involved, is appropriate for your circumstances. Holding properties in an SMSF can also require some complex structures to ensure the law is being followed and specialist advice may be needed before making an investment choice. A lack of diversification, low balances and inappropriate property investments can have a detrimental impact on your retirement savings.

How can we help?

If you are considering an SMSF, please feel free to give me a call to arrange a time to meet so that we can discuss your particular requirements and circumstances in more detail.

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