ESTABLISHING YOUR SELF-MANAGED SUPERANNUATION FUND (SMSF)

For individuals seeking greater control over their retirement savings, managing a self-managed superannuation fund (SMSF) can be an appealing option. However, this endeavor comes with a significant commitment of time and effort. An SMSF is best suited for those with substantial superannuation holdings and a deep understanding of financial and legal matters.

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The key distinction between an SMSF and other types of funds lies in its members, who typically also serve as trustees. This means that SMSF members administer the fund for their own benefit and must ensure compliance with superannuation and tax laws. Regardless of whether professionals are engaged to assist, ultimate responsibility for the SMSF rests with its members.

What is a SMSF?

An SMSF is a privately managed superannuation fund regulated by the Australian Taxation Office (ATO). It allows individuals to oversee their own retirement savings. SMSFs can have up to four individual members and/or a corporate trustee. Trustees (or directors, in the case of a corporate trustee) are responsible for making decisions related to the fund and ensuring compliance with relevant regulations.

How do SMSF's operate?

Similar to other superannuation funds, SMSFs are established as a legal tax structure with the primary objective of providing for retirement. Severe penalties can be imposed if the fund is used for any other purpose. Setting up and maintaining an SMSF can incur substantial initial and ongoing expenses, making it cost-effective for those with larger balances

Managing your own SMSF entails several responsibilities, including:

- Acting as a trustee or director, carrying significant legal obligations.
- Developing, implementing, and regularly reviewing the investment strategy to align with the retirement needs of all members.
- Possessing the financial expertise and skills required for sound investment decisions.
- Dedicating sufficient time to research investments and administer the fund.
- Budgeting for ongoing expenses, such as professional accounting, tax, audit, legal, and financial advice.
- Maintaining comprehensive records and arranging an annual audit by an approved SMSF auditor.

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- Securing appropriate insurance coverage, including income and total and permanent disability insurance.
- Utilizing the funds exclusively for providing retirement benefits.
- Adhering to the Superannuation Industry (Supervision) Act covenants, which include acting in the best interests of all beneficiaries.

As SMSFs are run by the members, SMSFs are regulated by the ATO rather than APRA. Many of the protections available to APRA regulated superannuation funds are not available if you have an SMSF.

	APRA regulated funds	SMSFs
Compensation	APRA-regulated funds are eligible for compensation where they suffer a loss as a result of fraud or theft	SMSFs are not eligible for compensation if they suffer loss as a result of fraud of theft
Complaints	APRA-regulated funds must address member complaints. Where complaints are not resolved, members must offer access to a free and independent complaints resolution service such as the Australian Financial Complaints Authority (AFCA)	SMSF trustees/members must resolve their own complaints, which may require legal assistance. SMSF trustees/members do not have access to the AFCA.

Investment Strategy

- For some, establishing an SMSF offers the flexibility to pursue their preferred investment strategy. Trustees must ensure that the investment strategy aligns with the sole purpose test. The Superannuation Industry (Supervision) Act sets out guidelines for an SMSF investment strategy, including:
- Maintaining a clear separation of fund assets from personal use.
- Avoiding the provision of financial assistance to members and their relatives.
- Engaging in arm's length transactions.
- Exercising caution when acquiring assets from related parties, with exceptions for business real property.
- Adhering to restrictions on borrowing.
- Complying with limitations on investments, loans, or leases to members and related parties, as per the in-house asset rules.
- Prohibiting the charging of member benefits and fund assets.

References

You may wish to refer to the following websites for further information about establishing a SMSF:

- www.moneysmart.gov.au
- www.ato.gov.au

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