Fact Sheet

Self-managed super funds (SMSFs)

Starting a SMSF is a major financial decision. How do you know if a SMSF is right for you?

General advice warning
This information is about Cbus. It doesn’t take into account your specific needs, so you should look at your own financial position, objectives and requirements before making any financial decisions. Read the relevant Cbus Product Disclosure Statement to decide whether Cbus is right for you. For details about how Cbus collects, manages and discloses personal information, please refer to the Cbus Privacy Policy and Personal Information Collection Statement. For copies of these documents, call Cbus on 1300 361 784 or visit www.cbussuper.com.au.
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What is a SMSF?

Regulated by the Australian Taxation Office (ATO), SMSFs offer an alternative to the super funds run by financial institutions, employers and industry funds like Cbus. SMSFs are typically family or one-member funds. They are established under Trust Law and require an independent auditor to be appointed each year to examine your fund’s financial statements and assess the fund’s compliance with super law.

Advantages of SMSFs

Running a SMSF offers a number of advantages:

- **You’re in control financially and legally:** As the trustee, you have complete control over the fund’s investments. You and any other members of the fund are legally responsible for every decision made.
- **Flexible choice and decisions:** You decide what, when and how much of your super to invest. You are able to set the framework for making investment decisions and switch or modify those investments as you see fit.
- **Responsibility over design and operation:** You have a degree of control over the rules of the fund and how it operates; however, it’s important for you to be aware of regulatory changes and ensuring that your fund complies with them.

Disadvantages of SMSFs

SMSFs have some disadvantages:

- **You bear the risk:** As the trustee, you are legally responsible for every decision and action your fund makes. Even if you get professional advice, the responsibility ultimately rests with you. Violation of the strict laws that govern the super industry could mean the loss of tax concessions in addition to tax and legal prosecution.
- **It’s time-consuming:** Meeting all the legal and administrative requirements can take a lot of time and effort. Any outside help you get will be an additional cost to the fund and you’ll need to be sure about who is running it when you are sick or on holiday.
- **There’s no independent umpire:** SMSF trustees don’t have access to the Superannuation Complaints Tribunal if problems arise. As many SMSFs are family structures, any disagreements about how the fund is managed could result in costly and time-consuming legal action. SMSFs are also not protected by the Australian Prudential Regulation Authority (APRA) against investment manager fraud.
- **Difficulties when closing down your SMSF:** If you decide to close down your SMSF, there are significant administration burdens that you must fulfil. The ATO must be notified and you will also have to do the following:
  - Payout or rollover member benefits in compliance with superannuation and tax laws and your Trust Deed.
  - Arrange a final audit and the final SMSF annual return.
  - Receive confirmation from the ATO that your SMSF has been wound up.
  - Close your SMSF bank account(s).

ATO information

The ATO provides a detailed overview of what you need to consider before setting up an SMSF, how to set up and run an SMSF, and how to wind up an SMSF. Visit [www.ato.gov.au/smsf](http://www.ato.gov.au/smsf) for details.

Get the right advice

If your accountant or financial advisor has recommended that you start a SMSF but you’re unsure whether it’s right for you, get a second opinion. It’s your money and how you invest it can have a significant effect on your lifestyle in retirement. You should ask questions about both the set-up costs and ongoing cost, how much time is required to run your SMSF and what decisions are you going to make yourself and what ones you will pay someone to make for you.

Talk to Cbus

The Cbus Advice Team can give you financial advice on any aspect of super, over the phone. There’s no cost to speak with an adviser – it’s part of your Cbus membership.

If you need advice on more complex matters, the Cbus Advice Team can refer you to an accredited financial planner for a face-to-face meeting. The financial planner can offer you advice on a fee-for-service basis. Your first visit is free and any fees for advice will be agreed with you in advance.

SMSFs – questions you need to ask

SMSFs aren’t for everyone. To help decide whether a SMSF is right for you, consider the following:

**Do you have time?**

Depending on the level of control, you’ll need to devote a couple of hours each week to running the fund and decide who will step in and keep everything running if you get sick or go on holidays.

**Do you have the knowledge and experience?**

You’ll need to be familiar and comply with superannuation, tax and other relevant legislation, your fund’s Trust Deed and administrative requirements set by the government and financial services regulators. Failure to meet your legal responsibilities may result in penalties.

**Do you have enough?**

Generally, if you have less than $300,000 in super assets, the costs associated with running a SMSF may be higher than other alternatives. The more super you have, the more economically viable a SMSF becomes.

**Will you get a better result?**

One of the main advantages of SMSFs is that you get to pick your own investments. But there’s no point setting up a SMSF if you don’t make more money than you would if you’d invested your super with a regular fund.

Do you have the skills and knowledge to achieve your desired returns? Or will you need to pay advisers and/or your accountant to help implement your investment strategy?

**Can you afford it?**

It’s hard to say exactly how much it costs to set up and run a SMSF as every investor is different ...however the ATO found the average SMSF operating expenses in 2012 were $5,600*.

There are three main costs associated with SMSFs:

1. **Set-up costs:** To set up the Trust Deed, etc.
2. **Administration and compliance costs:** Auditing, tax and accounting costs.
3. **Investment costs:** These vary depending on how complex and sophisticated your investments are and how often transactions are made.


**Do you meet the sole purpose test?**

Starting a SMSF doesn’t mean you can access your super benefits early or use the money to pay off your mortgage or go on a holiday.

Like all superannuation funds, SMSFs must be maintained for the sole purpose of providing retirement or ancilliary (death/ill health) benefits, and the ATO imposes harsh penalties for breaches and they may also prosecute for compliance failure.

Property in your SMSF can’t be used by yourself or related parties.

**What are you giving up?**

Cbus offers access to affordable death, disablement and income protection insurance cover because of our large membership numbers. With a SMSF, you may not be able to get the same cover and you may need a medical assessment.
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