SELF MANAGED SUPERANNUATION

Product Information Document

The Super Group
ABN 33 202 250 18
The Edgecliff Centre
203-233 New South Head Road, Edgecliff 2027

Telephone: (02) 9328 9328
Facsimile: (02) 9328 9327
Email: enquiries@supergroup.com.au

Introduction

The Super Group specialises in the establishment, administration and compliance of self managed superannuation funds ("SMSF").

Our aim is to assist people achieve their retirement savings goals through self managed superannuation while providing professional yet personalised services in relation to their establishment and administration.

This Product Information Document provides information on self managed superannuation, its advantages, disadvantages, significant benefits and significant risks.

This document should not be read as providing financial product advice nor making recommendations in relation to membership to a SMSF. A licensed adviser should be consulted for any specific advice regarding superannuation.

Superannuation

Superannuation is a long term savings arrangement that operates primarily to provide income for retirement. Superannuation involves employers, the self-employed and employees making contributions over a long period to a superannuation fund.

A superannuation fund holds contributions in trust for the member and invests the contributions to increase the fund's assets. These assets are then used to provide benefits: to members when they retire; suffer a serious disability; or, to a member's family if the member dies. The government restricts when benefits can be paid from a superannuation fund.

If a superannuation fund has elected to be regulated, has complied with relevant superannuation law and has not received a notice of non-compliance from the regulator, the Government taxes superannuation savings at lower rates than normal savings.

In Australia, the main legislation regulating superannuation is the *Superannuation Industry (Supervision) Act 1993* (SIS) and the *Income Tax Assessment Act 1936* (Tax Act).

What is a Self-Managed Superannuation Fund?

- A SMSF is a personalised standalone superannuation fund set up by its members.
- Each SMSF is constituted by its own trust deed which sets out the governing rules of the SMSF. The governing rules together with relevant superannuation law specify what the Fund can and cannot do.
- A SMSF, being a trust, must have a trustee. The trustee can be either individuals or a constitutional corporation. To be defined as a SMSF, the law requires that each and every member be a trustee, either as an individual trustee or as a director of a trustee company. There can be no other trustees.
- If the SMSF is a "single member fund" then that member, together with another person must be trustee. Alternatively, if a corporate entity is trustee then the 'single member' may be the sole director.
- A SMSF is not permitted to have more than four (4) members.
- Members of a SMSF cannot be employees of each other unless they are related.
- Trustees of a SMSF must not receive remuneration from the Fund.

Advantages of a SMSF

- You are in control (you, as the trustee, make all the decisions).
- You make the investment decisions. You decide whether to buy, sell or hold shares, options, property, fixed interest, warrants, managed funds, international investments or any other permitted investment. You also determine their respective weightings.
- You have personal title over all assets.
- You are able to select investments that best suit your environmental, social and ethical considerations.
- You can implement an investment profile that matches your risk profile.
- You can formulate a personalised retirement strategy to include a combination of lump sums or pensions.
- SMSFs offer greater flexibility with respect to current Reasonable Benefit Limit strategies.
- You, as trustee, are more inclined to act in your best interests.
- You can arrange an investment mix that maximises the tax efficiency of your SMSF.
- You can minimise your SMSF's tax liability by judiciously using the dividend imputation system.
- You can style your SMSF to uniquely compliment other business or investment entities.
- SMSF's offer greater levels of confidentiality and privacy.
- The investment profile of a SMSF is more likely to be synchronised with your requirements throughout your life's cycles.
- You decide whether to maintain an earnings reserves.
- Once the SMSF is established there are **NO** entry fees or contribution fees.
- Your SMSF is portable; it follows you from job to job, employer to employer or from location to location.
- You can provide clear and binding directions regarding who will receive death benefits when you die.
- Superannuation Guarantee obligations can be satisfied using a SMSF.
- You can minimise the impact of tax on contributions.
- A SMSF can acquire a listed security from a related party (rules apply).
- A SMSF can accept in-specie contributions (rules apply).
- A SMSF can acquire business real property from a related party (rules apply).
- A SMSF can invest directly and wholly in real property.

- A SMSF can accept contributions from any source, including contributions for a non-working spouse.

- A SMSF can be utilised for the purposes of Contribution Splitting.

- You, as trustee, are entitled to be indemnified from the assets of the fund against any personal liability for loss or damage incurred by the fund, except where you have acted negligently or fraudulently.

- SMSF’s enjoy reduced reporting requirements compared to other superannuation entities.

- You can engage professionals, like The Super Group, to assist you in managing the fund.

- Generally, SMSF’s enjoy an inverse correlation between Fund size and costs.

- Usually SMSF’s are the cheapest option for person’s with large superannuation balances.

- A SMSF is a legitimate Choice of Fund option.

Disadvantages of a SMSF

- You, as Trustee, are responsible for ensuring the fund is properly managed and that it complies with all legal obligations. This responsibility is important and failure to act within the legal obligations can render the fund non-complying and the trustees can be fined or imprisoned.

- The investment performance of the Fund is dependent on your actions and/or inactions.

- Problems may arise in the event of partner separation.

- Problems may arise upon death of a member (trustee).

- You, as trustee, are bound by legislation to:

    - act honestly in all matters;
    - exercise the same degree of care, skill and diligence as an ordinary prudent person;
    - act in the best interests of the fund members;
    - keep the fund assets separate from other assets;
    - retain control over the fund;
    - develop and implement an investment strategy; and,
    - allow members access to certain information.

- Your administrative responsibilities are:

    - Annual Income Tax and Regulatory Return;
    - Member Contributions Statement;
    - Reasonable Benefit Limit reporting;
    - Supervisory Levy payment;
    - Record keeping requirements including accurate and accessible accounting records, annual operating statement and statement of financial position, minutes of trustees meetings and decisions and maintenance of filed records;

- Arrange an annual audit covering both financial and compliance aspects; and,
- Administer the winding up of the fund when the trustees decide to close the fund.

- Trustees cannot borrow money or provide a charge over an asset (except in very limited specific cases).

- Trustees are restricted from lending, investing or leasing more than 5% of the fund's total assets to a related party of the fund. Some exceptions exist.

- Trustees are prohibited from acquiring assets for the superannuation fund from a related party of the fund unless the asset is business real property or a listed security.

- Small member account protection does not apply to SMSF accounts.

- SMSF's of small capital value may be more costly than other superannuation options.

- SMSF's do not fall under the jurisdiction of the Superannuation Complaints Tribunal.

Significant Benefits Provided by SMSF

- Benefits may be paid from the fund in respect of a member when the following events occur:

  - Normal or Early Retirement;
  - Resignation;
  - Death; or,
  - Permanent Disablement.

- A member's benefit is based on the balance of the member's account maintained in the fund. In simple terms, it is the balance of the inflows (roll-ins, contributions, and investment returns) after deducting the outflows (fees, charges, brokerage, and taxes).

- There is currently no minimum limit on the amount of contributions that can be made to a SMSF.

- Maximum limits do apply to the amount of contributions that can be made for which a tax deduction is sought. These limits are known as maximum deductible contribution limits.

- Self-employed member contributions may be deductible to the member up to their age based maximum deductible contribution limit. The deduction is dependent on the member notifying the trustee, by way of an 82AAT Notice, of how much the member intends to claim as a deduction, and, on the trustee furnishing to the member a Trustee Acknowledgment Certificate.

- Contributions for which a tax deduction is claimed are taxed in the Fund at the rate of 15%.

- Undeducted contributions are member contributions for which a tax deduction is not claimed.

- New limits apply to the amount of undeducted contributions that can be made ($150,000 per annum or $450,000 in one year but nothing in the following 2 years). A concession has been announced by the government allowing a $1,000,000.00 limit in the year to 30 June 2007.

- An SMSF may accept contributions made on behalf of a spouse. Spouse contributions are undeducted contributions.

- Fees, charges, expenses, administration and other operational costs ("fees and charges") are usually deducted from the gross investment income earned each year.

- The net income of the SMSF is taxed at the rate of 15%.

- Net income generally includes tax deductible contributions, investment returns and 2/3 of any realised capital gains on assets held for more than 12 months, less fees and charges.

- Any imputation credits received by a SMSF can be used to offset the tax payable by the Fund.

- Member's can choose to take out insurance for death and/or total and permanent disablement. The premiums are deducted directly from the member's account. Any insurance proceeds will be payable in addition to the member's account balance.

- Members' benefits may be subject to Preservation. There are three broad preservation categories:

  - Preserved Benefits;
  - Restricted Benefits; and,
  - Unrestricted Benefits.

- Access to Preserved Benefits is restricted by government regulation. Certain "conditions of release" apply to Preserved Benefits. There are no restrictions on the access of Preserved Benefits when the member reaches age 65.

- Access to Preserved Benefits is also permitted when a member permanently retires after reaching Preservation Age.

- A member's Preservation Age depends on their date of birth. For persons born before 1 July 1960, their Preservation Age is 55 years. A person's Preservation Age increases in line with their date of birth such that the maximum Preservation Age of 60 years applies to persons born after 30 June 1964.

- Access to Restricted Benefits is dependent upon reaching age 60 and a change of employment arrangements.

- Member's can access Unrestricted Benefits at any time.

- Benefits must be paid upon the death of a member.

- Benefits can be paid as either a Lump Sum or Pension.

- The Commonwealth Government has set Reasonable Benefit Limits ("RBL") (due to be phased out from 1 July 2007) within which retirement benefits are taxed at a concessional rate. There are two such limits: Lump Sum and Pension. Benefits received in excess of these limits may be taxed at a significantly higher rate (in most cases at the top marginal rate of tax).

- Lump sums received before retirement but as a consequence of invalidity are taxed concessionally.

- Benefits taken as a Lump Sum on retirement after Preservation Age are tax free up to the Post 83 Tax Free Threshold (which is indexed each year). Benefits received in excess of this threshold but less than the Lump Sum RBL are taxed at 15% plus Medicare Levy.

- Undeducted contributions are not subject to tax when taken as a lump sum benefit.

- If benefits are taken as a pension, the SMSF can offer either an allocated pension or a market linked pension or a combination of both.

- An allocated pension has the following features:

  - You determine your pension income to within statutory minimums and maximums;
  - Lump sum withdrawals can be made at any time (ETP tax rules apply);
  - The pension may not be payable for life. It is payable only for as long as there is a credit balance in the member's account.
  - The balance of the member's account is dependent on the SMSF's investment performance, the size of the pension selected, fees and charges, and any lump sum withdrawals.

- If a member's total benefit is applied to the provision of an allocated pension, no Lump Sum tax is payable at that time.

- Pension payments received by the member will be subject to normal personal income tax, less a tax rebate equal to 15% of the taxable pension. This rebate is dependent on the benefit used to pay the pension is within the member's relevant RBL.

- When a pension commences, a Tax File Number Declaration will be required from the member. The Trustee will issue the member a yearly PAYG Payment Summary ("Group Certificate") and may be required to withhold tax from pension payments. The member must include their PAYG Payment Summary in their personal income tax return.

- Any income or capital gains earned on assets used to pay a pension will be exempt from tax.

- In the event of the death of a member, the law requires their benefits be paid as soon as practicable after death. The Trust Deed establishes the mechanisms by which death benefits shall be paid. It also empowers the Trustee to determine to whom and how a death benefit shall be paid.

- Death benefits can be paid to a dependant spouse, tax free, up to the Pension RBL. Death benefits paid to non-dependant beneficiaries may be subject to tax.

- The Trust Deed permits members to make Binding Death Benefit Nominations in relation to any death benefits that may be payable. If a Binding Death Benefit Nomination has been offered and it complies with all the relevant provisions, the Trustee will be obliged to pay the benefit in accordance with the member's instructions as set out in the Nomination.

- Any Binding Nomination is valid for a period of 3 years from the date it is advised in writing to the Trustee. You are required to renew it every 3 years for it to continue to have effect. The Nomination does not prescribe how the Trustee shall pay the benefit. However, the Regulations of the Superannuation (Supervision) Act specify the benefit may only be paid in cash or rolled over.

The taxation rules for superannuation are complex and their application can depend on personal circumstances. For further information on taxation of superannuation benefits, consult a licensed financial adviser or tax professional.

Significant Risks

- Your benefits are not guaranteed.
- When benefits become payable, members may get less than the sum of the amount of contributions paid because of negative investment returns and expenses incurred.
- The level of investment returns depends on the types of investments chosen, the management of such investments and the timing of their acquisition and disposal.
- You are responsible for the investment performance of a SMSF.
- You are responsible for the compliance of a SMSF.
- Non-compliance with the superannuation laws may subject the Fund to penalty tax that may significantly reduce members' benefits.
- Future government legislation may limit the amount of tax concessional benefits one is permitted to receive.
- Future government legislation may tighten the compliance obligations of a SMSF.

Costs Associated with SMSF

The costs associated with a SMSF can vary greatly depending on the investment activity of the fund and the type and level of professional assistance sought. The costs of a SMSF can be broken up into fixed costs and variable costs.

Fixed costs of an SMSF may include:

- The Commonwealth Government levies a lodgement fee of $45 on SMSF each year.
- The law requires a SMSF be audited by an Approved Auditor each year. Audit fees will usually range from $175 to $600 but can be more.
- If the SMSF pays pensions an Actuarial Certificate may be required. This certificate is usually required annually. Cost of Actuarial Certificates can vary, but allow between $250 and $500.

Variable costs may include:

- Costs associated with holding investments. These vary depending on the investment. Cash holdings may have the lowest holding costs. Real property investment may have the greatest holding costs.
- Each investment will have an acquisition cost that varies depending on the investment. The greater the number of investment transactions usually the greater the cost.
- Some investment costs include commissions paid to advisors.

- Professional administrators like The Super Group may be appointed to assist the trustees/members discharge their responsibilities and administer the Fund. Professional assistance does cost and, because superannuation is a highly complex area, these costs may be significant. The cost of professional assistance will be dependent on the level and frequency of assistance sought.

- A recent study by IFSA called *Investment Trends/IFSA Self Managed Super Funds (SMSF) Report February 2006* reveals that the average annual amount spent per SMSF on running the Fund to be $3,500.00. This was based on data as at December 2004.