Member Super Facts

September 2014

Thinking of self-managed super? Get the facts first

Self-managed super funds (SMSFs) have received much publicity lately with some people wondering whether one might be right for them. But what exactly are SMSFs and how do they compare with APRA-regulated super funds like CareSuper?

To help you get the facts, we've outlined some of the important things to compare and consider in this fact sheet, but when it comes to complex decisions it's also a good idea to speak to a qualified financial planner to discuss your options.

How do SMSFs compare with other funds?

The key principle for all super funds is that they are run for the sole purpose of providing retirement benefits to members.

The main difference between an SMSF and other types of super funds is that SMSFs can only have up to four members, and these members are also the trustees. These trustees bear the responsibility for all aspects of the fund including investments, taxation, record keeping, audit and regulatory requirements.

SMSFs must be registered with the ATO, which also has responsibility for their oversight.

Trustees of other super funds like CareSuper also have a prudential responsibility to act in the best interest of its collective membership. These funds are regulated by APRA, the Australian Prudential Regulation Authority and must meet rigorous criteria in order to be licensed. The Trustee must operate within a governance framework, have a robust risk management strategy and is responsible for running the fund including its investments, administration, compliance and customer service.

For a more detailed comparison between self-managed super funds and APRA-regulated funds like CareSuper, take a look at the overview on the next page.

get the right advice

CareSuper members can access advice from Industry Fund Financial Planners on a range of topics.* Industry Fund Financial Planners do not receive commissions, ensuring your best interests are their only priority.

Members can also receive super-related advice at no extra charge on areas such as investment choice, basic fund comparisons and contribution strategies. To arrange a time to speak to a financial planner call the **CareSuperLine** on **1300 360 149** or book a call-back at **caresuper.com.au/advice**.

* Financial advice is offered through CareSuper's relationship with Industry Fund Services Limited (IFS), and is provided by an authorisation under the Australian financial services licence of IFS, ABN 54 007 016 195, AFSL 232514.

did you know?

CareSuper is consistently an award-winning super fund thanks to its strong investment performance, good governance and benefits to members.

Past performance is not an indicator of future performance.

Information helpline

For more information please call the CareSuperLine on **1300 360 149**, email **admin@caresuper.com.au** or visit **caresuper.com.au.**

CARE Super Pty Ltd (Trustee) ABN 91 006 670 060 AFSL 235226
CARE Super (Fund) ABN 98 172 275 725

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Member Super Facts (continued)

Self-managed funds vs APRA-regulated funds at a glance

	Self-managed super funds	APRA-regulated funds like CareSuper
Cost	The ATO estimates it costs around $2000 a year (including the annual supervisory levy) to run an SMSF, but this will vary depending on how much work is outsourced and on the fees charged by service providers.** Investment costs will be determined by the investments selected. Whether the cost to run the fund is covered by investment returns is largely determined by the level of assets in the fund. Set-up and wind-up costs also apply.	A clear fee structure is outlined with APRA-regulated funds with the costs of running the fund being spread across all members. CareSuper charges $78 plus 0.15%–0.20% of your account balance (capped at $500) per year. In addition, indirect investment management costs based on a member's investment choice are deducted from investment returns. For a CareSuper member with $150,000 in the Balanced option, the fee charged in 2013/14 was $1380. There are generally no set-up fees, but a small administration fee may apply to close your account. In CareSuper's case, withdrawals incur an administration fee of $40. For a list of all of CareSuper's fees and charges, visit **caresuper.com.au/feescosts**.
Investments	Trustees may invest in assets of their choice including shares, bonds, term deposits and cash, as long as they are separate from the personal and business affairs of fund members. Investments, including direct property, must be made on a commercial at arm's length basis and be held in the fund's name. If assets are not arm's length, tax will be applied to income from such assets at the rate of 45% rather than 15%, which is the rate generally applied to income for all super funds. While SMSFs may invest in collectibles, they must not be leased to, used or displayed in the premises of a member of the fund or a related party. You may also be able to borrow money through an SMSF to invest in assets such as property, shares and managed funds; however, strict rules and criteria apply.	Trustees of APRA-regulated funds hold a diverse range of investments across several asset classes. Because of their size and commercial nature, they can access some investments not generally available to smaller funds or individuals such as infrastructure assets and other unlisted investments both in Australia and overseas. CareSuper offers 7 managed investment options – which include a mix of asset classes with varying levels of exposure to growth and defensive assets; 5 asset class options: Australian Shares, Overseas Shares, Direct Property, Fixed Interest and Capital Secure and a Direct Investment option. Members can select one or a combination of options. CareSuper's Direct Investment option allows members to select shares of their choosing from the S&P/ASX 300 Index, exchange-traded funds, listed investment companies and term deposits through an online platform. Unlike in self-managed funds, members cannot invest in a direct property of their choice, nor hold collectibles.
Investment risk	The individuals in the fund manage all investments and therefore must manage the risk themselves. The level of risk depends on the type of investments undertaken.	Members can choose from a range of investment options, each with its own degree of risk. CareSuper manages all options, taking into account investment objectives and risk. CareSuper engages an independent investment adviser and specialist investment managers in order to achieve diversification and spread of risk.
Liquidity	Trustees are responsible for the liquidity within the SMSF in order to pay benefits including pension payments. Liquidity is also a factor in making changes to investment strategy. Trustees need to be mindful of the potential need to sell assets and the timing of such sales for liquidity purposes.	Trustees are also required to monitor and manage liquidity. However, cashflow derived from ongoing contributions can lower the imperative to physically sell assets (and potentially accrue losses in falling markets). Changes in investment strategy can also be managed through cashflow.
Valuation and calculation of returns	Trustees should be mindful of tracking the performance of their fund, including buy and sell prices leading to capital gains and losses, income, taxation, costs and fees etc.	The Trustee of an APRA-regulated fund is required to calculate returns net of fees and taxes for regular disclosure to members. CareSuper's returns are reflected in weekly unit prices which make the calculation of returns straightforward.

make sure you understand all of your options and responsibilities — after all, it's your money

	Self-managed super funds	APRA-regulated funds like CareSuper
Liability and responsibility	All individual members of the SMSF can be held liable for decisions or actions that affect the fund made by themselves or others. Any losses are borne by all members of the SMSF. Penalties apply if the fund's responsibilities are not met. SMSF members do not have financial assistance protection if they are victims of fraud or similar misadventure.	The responsibility for all investing and regulatory requirements is held by the Trustee of the fund. Funds hold Trustee insurance and have statutory protection under the Financial Assistance Provisions (SISA 23). However, as with all super funds and investments, there is always the possibility of negative returns.
Personal time commitment	SMSF trustees are required to ensure all paperwork and legal requirements are met, on top of managing investments. This may take considerable time and expertise.	Members can choose to spend as little or as much time as they want on their super, knowing that the Trustee takes care of all responsibilities. This enables members to focus on investment decisions rather than compliance and other requirements.
Insurance	Insurance cover will need to be organised separately.	Collective funds offer default Death and Total & permanent disablement insurance procured at group rates. Premiums are deducted from your super account with the option to change or opt out of the cover.
Estate planning	SMSF trustees have flexibility when it comes to making binding nominations and certain contingencies can also be arranged through the SMSF's trust deed. If one member dies, the SMSF continues to hold the assets in the fund. Death benefit payouts can be a slow and difficult process if illiquid assets that are hard to divide or dispose of are involved.	Members can make binding and non-binding death benefit nominations. Asset illiquidity is not a concern, making death benefit payouts more timely. Refer to the **Nominating your beneficiaries** fact sheet available at **caresuper.com.au** for more information.
What happens when the fund is no longer suitable for you?	Winding up an SMSF can be complex, depending on the assets that need to be sold and the finalisation of accounts and tax returns. Further issues can arise if members don't have the knowledge to close the fund, if illiquid assets need to be sold and if any disagreements occur between members (for example as a result of divorce proceedings).	Leaving a regular super fund is a straightforward process with the option to transfer to another super fund online, transfer directly into an account-based pension (when applicable) or withdraw all your funds once a condition of release is met. Payments are usually made within three days of receipt of relevant claim documentation or request.

looking to wind up your smsf?

We've partnered with Crowe Horwath to offer an SMSF wind up service that provides the expertise, guidance and knowledge required when closing an SMSF.

Discounted rates are available for CareSuper members.

Find out more at **smsfwindup.com.au**.

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Member Super Facts (continued)

Five main considerations when deciding which type of fund is right for you

To better understand your needs and goals when it comes to saving for retirement and to help you determine which type of fund might suit your needs, ask yourself the following questions.

1 What do you need from your super fund?

You need to have a clear understanding of what you wish to achieve from your super fund and what your investment objectives are, keeping in mind that the sole purpose of a super fund is to save for your retirement. Be sure to consider all of your options and conduct your own independent research to understand the opportunities, risks and restrictions of both SMSFs and other super funds.

2 How much time and effort would you like to spend on your super?

As a trustee of a self-managed fund, the commitment required to keep the fund running is higher than in other funds. Trustees will need to spend time ensuring they understand and act on the relevant regulations and manage the fund's investments. While some members of SMSFs leave this to their accountant or financial adviser, it's important to remember that the accountability ultimately lies with the trustees/members of the fund, meaning any oversight is their responsibility. Penalties apply if the trustee's responsibilities are not met.

Your responsibilities in a self-managed fund

Some of the things you will need to do if you are part of a self-managed fund include:

- Reporting and administration tasks such as lodging your SMSF annual return on time, tax requirements and ensuring you pay the supervisory levy
- Develop an investment strategy and invest the fund's assets responsibly taking into account risk and liquidity
- Keeping accurate records of transactions, minutes from meetings outlining investment decisions and annual operating statements.

In an APRA-regulated fund like CareSuper, the Trustee of the fund looks after all of the administration, investing, legal, audit and accounting requirements, meaning members do not need to take on this responsibility.

3 What level of investment and superannuation expertise do you have?

In a self-managed fund, a good understanding of investing, super-related legal obligations and how to run the fund is paramount.

While some advisors and accountants will offer to do a lot of the work, they are likely to charge fees for these ongoing services and more importantly, may not be experienced investors. If one person takes the lead role in managing the SMSF, it is important to consider alternative arrangements if that person is no longer capable of carrying out this role.

APRA-regulated super funds employ teams of experienced experts to ensure the fund runs smoothly and is compliant with legal and regulatory obligations. This provides members with the flexibility to 'set and forget' their super if they wish, or take a more active role, knowing that the risks and their options are clearly identified.

diversification is key

No matter which investment options you select, it's important to diversify your investments to manage risk and volatility, leading to more consistent returns.

4 Will returns outweigh the costs?

Rainmaker analysis of ATO performance data shows that self-managed funds with $200,000 to $1 million in assets underperformed super fund benchmarks in four out of five years from 2008-2012.

Only self-managed funds with more than $1 million in assets outperformed the benchmark set for regular funds according to the survey.**

5 Are you getting the right advice?

When seeking advice around your finances, it's important to ensure that the adviser has your best interests in mind.

Many accountants and financial advisers encourage their clients to take out a self-managed super fund, and while this may be suitable in some situations, you should be aware of the reasons why they have recommended this for you. Some advisers may receive commissions if you open an SMSF under their advisement and this is something to be aware of.

Ultimately, the liability of an SMSF lies with the members of the fund, not the adviser, meaning members should understand and have a hand in all of the fund's decisions.

Like to find out more?

To find out more about self-managed super funds visit **ato.gov.au**. For more information on CareSuper, including the benefits and investment options available to members visit **caresuper.com.au** or call the CareSuperLine on **1300 360 149**.

** Source: Financial Standard website. http://www.financialstandard.com.au/news/view/39216358

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