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Has your SMSF got you tangled?

By Perpetual Private Insights
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The growth of Self-Managed Super Funds (SMSF) is one of the most notable features of Australia's recent investment landscape. As at June 2017, there were more than 580,000 SMSFs[1]. Australians love being the boss of their own money.

As popularity grows, so does the regulation and scrutiny from the Tax Office and other regulators seeking to ensure investors are protected. Many individuals or couples with an SMSF are also finding them an administrative burden, particularly as they age and want to explore other interests. While the SMSF structure has many benefits, it's not suited for everyone and you should be mindful of the challenges.

Administrative burden

On the surface it may not look all that difficult. Keep good records, lodge forms at tax time and enjoy the spoils of managing your own super. The reality, however, can be very different. As Patrick and Judy explain in their video, the administrative burden of their SMSF was one of the main reasons they chose to unwind it.

In an SMSF, you are essentially the trustee of your own super fund, and that brings with it some serious legal and financial responsibilities. There are fees involved in running an SMSF, you'll need to make investment decisions and you need to be aware of the constant changes to taxation and super regulations.

It's a lot of work, and each individual needs to decide if they're willing to commit the time.

Concentrated risk – property in SMSFs

One other important element about SMSFs is diversification – and Australia's bias to bricks and mortar. Having property as a major asset in your SMSF may have worked well over the past decade, but as with any investment, past performance is no indicator of future performance. Property is also a "bulky" asset, meaning it can dominate the asset allocation of an investment portfolio, which in turn makes diversification of the portfolio more difficult to achieve, as there is less "room" to include other asset classes. Diversification is vital to ensure your portfolio can weather a storm, and as the housing market slows in Australia's major cities this is becoming an increasingly important point.

Tax penalties

When you run your own super fund the buck stops with you. If you fail to meet the administrative and legal requirements you could be faced with a hefty tax bill.

You'll need to have a written investment policy, make investment decisions in line with that policy and review that policy regularly. All the time being aware of the restrictions on what assets can be owned and how they're supposed to be managed.

There are consultants and advisers you can employ to help you through the most difficult decisions. But in the end, it's your responsibility.

How would you prefer to spend your time?

When Patrick and Judy approached Perpetual, Richard, their adviser, helped them wind down their SMSF and implement a diversified investment plan that has given them confidence for the future, without the administration headache. For Patrick and Judy the benefits of winding down their SMSF were:

- Reduction in administrative burden
- Greater diversification
- A more disciplined and tailored budgeting system to ensure sustainability
- More time to do the things they love

SMSFs are supposed to give you control and independence. The question for an increasing number of Australians is: "how much control and independence do I have when I spend all my waking hours watching markets and reading ATO bulletins?"

Everyone has a different approach but sharing the paperwork and the number crunching with an expert while you go and actually ***enjoy*** life is surely one worth looking at?

[1] ATO SMSF Statistics Dec 2017

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