

Self Managed Super Funds

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## Take charge

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Gain control of your financial future with  
a Self-Managed Super Fund (SMSF)



Markiewicz  
& Co

**About Markiewicz & Co.**

Markiewicz & Co. is one of Australia's leading full service investment management and financial advisory firms. Our experienced advisers specialise in developing tailored wealth management solutions and individual investment strategies that are focussed on achieving each client's financial objectives.

**How to use this book**

This book outlines the features and benefits of Self-Managed Super Funds, and provides an overview of the responsibilities, complexities and time demands of setting up and running such a fund. It also discusses the situations where an SMSF provides a viable option over a traditional retail fund and describes how Markiewicz & Co. can assist you establish and manage such a fund, and make considered investment decisions.

For more information on our SMSF service, please read our disclosure document: Markiewicz & Co. Self-Managed Super Solutions.

The information in this book has been prepared without taking account of your objectives, financial situation or needs. Before acting on this information, consider its appropriateness, having regard to your objectives, financial situation and needs. If the information relates to the acquisition, or possible acquisition, of a particular financial product, you should obtain a Product Disclosure Statement relating to the product and consider the Statement before making any decision about whether to acquire the product.

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**An increasing number of  
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## What sort of lifestyle do you want in retirement?

For most Australians, superannuation (super) is their primary savings and investment vehicle for providing income in retirement. However, the way you live in retirement is not just dependent on how much you contribute to your super fund, but also on how, and with whom, your contributions have been invested and managed.

Although you can nominate the super fund or retirement savings account that will be credited with your super contributions, in most cases you don't have any input into the day-to-day management of those funds.

That's why in recent years, with some funds delivering negative or low returns (often further reduced through fees and charges), an increasing number of Australians have chosen to gain more control of their financial futures by establishing their own Self-Managed Super Fund.

### Charting your own course with a Self-Managed Super Fund

A Self-Managed Super Fund (SMSF) – also known as a DIY Fund – is a trust comprising no more than four members, which complies with a number of regulatory controls, and is used solely for the purpose of amassing, holding and investing savings to provide income for retirement.

As an SMSF is self-managed, it enables you to have greater control over the way your super contributions are invested. That means you can decide on the type and mix of investment, and the level of risk you are prepared to take to achieve your desired returns. Depending on your circumstances and the type of investments you hold, an SMSF may also offer some taxation and estate planning benefits.

However, establishing and managing your own SMSF can be quite complex, time consuming and costly. More importantly, without sufficient investment expertise, or a comprehensive understanding of relevant taxation law and the broader regulatory environment, your fund may not perform better than one offered by the big banks, or those of retail or industry funds.

That's why we have developed the Markiewicz & Co. Self-Managed Super Solution. This highly flexible service provides you with a personalised solution to establishing and administering your own SMSF. It also enables you to access our deep financial expertise and comprehensive investment knowledge, together with the appropriate legal and taxation advice.

By working together with Markiewicz & Co, you can simplify the process of running your own super fund, and move closer to achieving greater wealth for retirement.

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## The current Australian superannuation environment

With an ageing population and increased life expectancy, the need to have access to substantial savings in retirement is a pressing concern for most Australians.

The introduction of compulsory employer super contributions in 1992 recognised that a national retirement savings scheme was required to help reduce the future burden of age pensions on the public purse.

Further regulatory changes, including 'Super Choice' in 2005, which gave employees the option to nominate their preferred super fund (including an SMSF), and the 'Simpler Super' rules brought into effect in 2007, have made it easier for individuals to achieve a higher standard of living in retirement.

Capitalising on this, many Australians – especially those who are older, have higher incomes and sufficient resources – are realising the benefits of taking control of their own super through an SMSF. This type of fund is now the fastest growing sector in the superannuation industry.

According to the Australian Tax Office (ATO), as at the end of June 2011,\* there were more than 456,000 SMSFs (with in excess of 860,000 members) with investments totalling approximately \$418 billion. Since June 2004, the total number of SMSFs has increased by an average of 7.6% per year.

With SMSFs offering benefits such as the fund becoming a tax-free vehicle when members transition to a retirement pension after the age of 60, SMSFs will continue to gain favour as an effective vehicle for saving for retirement.

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\* Australian Taxation Office, *Self-managed super fund statistical report – June 2011*

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## Features and requirements of an SMSF

An SMSF may have between one and four members, with each member being a trustee of the fund. Other requirements include:

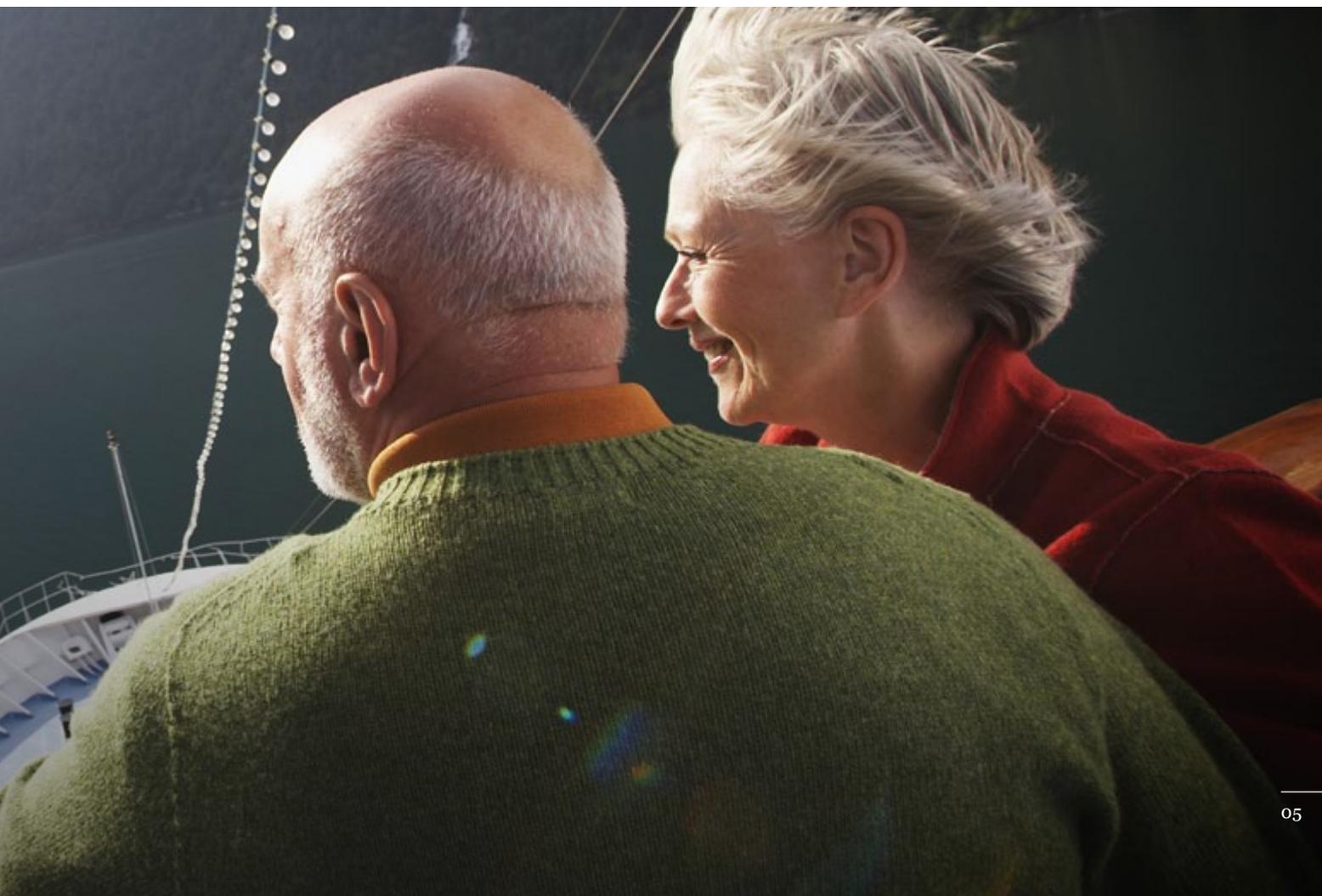
- › No member of the fund is allowed to be an employee of another member of the fund, unless those members are related
- › No trustee of the fund may receive remuneration for their services as a trustee, and
- › The fund must have a trust deed that outlines an appropriate investment strategy that meets all the members' objectives.

As all members of the SMSF take on the role of trustee, they are ultimately responsible for ensuring that the SMSF is administered in accordance with current legislation and meets all regulatory requirements. Similarly, all trustees must be in agreement with each investment decision, and these decisions should be detailed in documentation that is signed by all members.

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## Benefits of an SMSF

SMSFs provide a number of benefits that make them particularly appealing to certain individuals, such as high net worth individuals and their families, and those who have already accumulated considerable superannuation savings.

### Direct investment choice and flexibility

At its most basic, an SMSF lets you call the shots. According to a survey by the ATO, direct control of investments is the primary reason given for establishing an SMSF.

With your own SMSF, you have the flexibility to choose the class of assets you wish to invest in, which may include direct investment in shares, property, art, antiques – and more. Property investment is particularly appealing for small business owners who may wish to have their business premises owned by their SMSF, (however you may not transfer the family home into your fund).

Similarly, as an SMSF can be structured to meet the specific investment needs of its members, it gives them greater control over their investment strategies.

### Consolidating several funds into one

As an SMSF can have up to four members it enables you to consolidate funds from several different retail superannuation funds into one SMSF. This means that instead of each member paying separate fees to their funds, they can all be rolled over and consolidated into one SMSF. This feature makes establishing an SMSF a viable alternative for individuals whose own superannuation savings might be too small to warrant the use of such a vehicle.

An SMSF structure provides the opportunity for the fund to borrow money to purchase assets (such as property and shares), and benefit from the power of gearing. This strategy can help you diversify your portfolio and to purchase assets that you might otherwise not be able to acquire in full. It also allows you to leverage the tax-effective nature of superannuation savings, including the opportunity to minimise future capital gains tax.

However in addition to ensuring that your fund's geared investments satisfy the strict criteria of the relevant super laws, there are a number of things that need to be considered before adding such investments to your fund.

For example, a prudent investment strategy is usually based on diversification. Therefore, it is not wise to tie up most of the fund's assets in one major investment, such as a property. Similarly, as gearing is a long-term investment strategy, the decision to allow your SMSF to borrow to invest would not be advisable if you, or the other fund members, are close to retirement age.

### Reducing your taxation burden

An SMSF enables you to increase the tax effectiveness of superannuation, making it a powerful wealth creation strategy.

- › The maximum tax rate within a complying superannuation fund during the fund's accumulation stage is 15%
- › If an asset has been held in the fund for more than 12 months, the rate on the capital gains of that asset is discounted to 10%
- › When members of the fund begin drawing on it as an income stream, no tax is paid on earnings derived from dividends and capital gains
- › Tax can be lowered through the use of franking credits and the offsetting of capital losses
- › Once you turn 60, the fund is tax free, as are the payments you receive from it.

The follow table demonstrates the tax effectiveness of holding fully franked shares within an SMSF

	Nil Franking	Franking	Franking in pension phase
Investment income	\$20,000	\$20,000	\$20,000
Plus franking credit	\$0	\$8,571	\$8,571
Taxable Income	\$20,000	\$28,571	\$28,571
Tax Payable	\$3,000	\$4,286	\$0
Less Refundable Credit	\$0	\$8,571	\$8,571
Tax paid/(Refund)	\$3,000	(\$4,286 )	(\$8,571)

#### Offsetting tax through fully franked credits

Investing in listed Australian shares enables your SMSF to use franking (or imputation) credits to offset the tax payable on the fund's other income.

With the franking credit attached to most fully franked dividends being 30%, and the maximum tax paid by an SMSF on its investment income being 15% in the accumulation stage, and 0% in the pension stage, this offers you significant taxation benefits.

#### Using your SMSF to protect your wealth

While an SMSF is an effective way of saving for retirement, you should also have adequate insurance cover to make sure you and your family are looked after in the event of the unexpected.

One of the advantages of an SMSF is that the trustees can pay the premiums for some type of insurances directly to the insurer from within the fund. This removes the worry of paying your premiums from your personal income or business cash flow.

In addition, while salary sacrifice and personal contributions claimed as a tax deduction will attract income tax of 15% within the SMSF, part or all of the superannuation contributions that are used to pay for insurance premiums may be tax deductible to the fund, effectively reducing the cost of the insurance.

#### Types of insurance cover available to SMSFs are:

**Life Insurance** – provides a lump sum if the insured person dies or is diagnosed with a terminal illness.

**Total and Permanent Disablement Insurance** – provides a lump sum if the insured person suffers total and permanent disablement.

**Disability Income Insurance** – provides a benefit if the insured person is unable to work due to illness and is totally disabled or partially disabled for longer than the specific waiting period.

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## Getting the most value from your SMSF

While running your own SMSF offers greater control, investment flexibility and certain taxation benefits, you also need to consider the annual costs that will be incurred in managing the fund. In addition, given the highly regulated and technical environment of superannuation, it may also be prudent to enlist the services of professionals to help you set up and manage your SMSF.

### **Do you have sufficient knowledge of the regulatory environment?**

Within an SMSF, each trustee is fully responsible for the decisions and operations of the fund. This includes compliance with all aspects of the strict – and regularly changing – laws that govern the superannuation industry. Failure to do so could mean the loss of tax benefits and the imposition of both tax and criminal penalties.

### **Do you have investment and tax planning expertise?**

The success of an SMSF is closely tied to the investment strategies implemented by the trustees, and their knowledge of areas such as effective taxation planning. Without these skills, or unless professional advice is sought, running an SMSF is fraught with risk.

### **Do you have sufficient time?**

Management and administration of an SMSF can be time consuming, especially if you want to maximise your investment strategy and keep up-to-date with the relevant regulatory environment.

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## Is an SMSF right for you?

The decision to establish an SMSF is a significant one that should be undertaken with due care and consideration of your retirement savings objectives, and whether these will be best achieved by taking greater control of your own investments.

Markiewicz & Co. advisers can help you evaluate the suitability of an SMSF as an investment vehicle for you. Some of the factors that need to be taken into account include:

**Setup and running costs:** The costs of running an SMSF include the initial establishment of the trust deed as well as the ongoing costs associated with administration, auditing and lodgement fees. You may also wish to obtain independent financial and legal advice to guide your investment strategy and decisions.

**The size of your current superannuation holdings:** Do you have enough in superannuation for an SMSF to be cost effective and offer the opportunity to achieve investment diversification? While there are varying opinions on how much is required to set up a viable SMSF, it is generally agreed that the amount should be in the vicinity of \$200,000. However, this can be achieved by consolidating the superannuation of up to four members.

### Attributes of your current fund:

Before deciding to set up an SMSF, you need to take into account aspects of your current fund:

- › Are there any exit fees payable?
- › Are there any employment benefits in staying with your current fund?
- › Will you need to replace your current insurance policies?

The ATO also offers several fact sheets to help prospective trustees make the right decision ([www.ato.gov.au/super](http://www.ato.gov.au/super)).

### Setting up an SMSF

Once you've decided to set up an SMSF, Markiewicz & Co. can assist with the actual establishment. We aim to make the process simple and we have a team of financial advisers, accountants and solicitors who specialise in this field and can assist trustees with the necessary processes.

To know what are the key steps in setting up an SMSF, please call one of our advisers or read our disclosure document, Self-Managed Super Solutions.

### Requirements of a trustee

An SMSF is a trust structure. That means it must have trustees in place who are ultimately responsible for all the affairs of the fund. Each member of the fund is a trustee and will be legally responsible for all affairs of the fund even if you delegate some decisions to professionals such as accountants or financial advisers.

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A trustee of an SMSF must act in accordance with:

- › The provisions of the Superannuation Industry (Supervision) Act (SIS Act)
- › The clauses of the superannuation fund trust deed
- › Other general rules such as those imposed under tax law and trust law.

The SIS Act binds trustees to:

- › Act honestly in all matters
- › Exercise the same degree of care, skill and diligence as an ordinary prudent person
- › Act in the best interest of the fund members
- › Keep the assets of the fund separate from other assets
- › Retain control over the fund; and
- › Develop and implement an investment strategy that sets out the investment objectives of the fund and the investment strategies that will be implemented to achieve those objectives.



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## Developing your SMSF investment strategy

One of the key steps of setting up the SMSF is having an appropriate investment strategy. The ATO suggests that this strategy outlines the investment objectives of the SMSF and the investment approach the fund will take to achieve those objectives.

It is also important that your investment strategy is regularly reviewed to ensure it remains appropriate, and that it continues to meet the changing needs of the fund's members.

Your investment strategy should take into consideration:

- › The risks and likely return from the investments, having regard to the fund's objectives and expected cash flow requirements
- › The composition of the fund's investments and the extent to which the fund is exposed to risks from inadequate diversification
- › The fund's ability to pay benefits and other costs as they become due.

With an investment strategy being so critical to the performance of an SMSF, it makes sense to seek professional advice or appoint an investment manager, especially if the SMSF's trustees do not have the skills or time to develop and implement the strategy.

### Investment restrictions

As a trustee of your SMSF, you are legally responsible for the fund meeting all regulatory requirements, and need to ensure that you only invest in compliant assets. Some of the main SMSF investment restrictions include:

**Sole purpose test:** This test requires that super funds be maintained for the sole purpose of providing members with retirement benefits.

### Acquiring assets from a related party:

Trustees are generally prohibited from acquiring assets from other members and related parties. This means that you are not permitted to transfer your home into your SMSF, however your fund can own commercial property, such as your office, shop or factory.

**In-house assets:** The fund cannot invest more than 5% of its total super account balance in an asset that is owned by a related party. Broadly, an in-house asset is a loan to, or an investment in, a related party of the fund.



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## How Markiewicz & Co. can help you set up and manage your own SMSF

At Markiewicz & Co, we recognise that no two people are alike and that everyone's financial needs are unique. For this reason, we develop personalised investment and financial planning solutions that best address those needs.

Our Self-Managed Super Solutions service has been designed to help you take more control over your retirement by helping you:

- › Establish and administer a new SMSF, or
- › Transfer the administration of an existing SMSF to Markiewicz & Co. and its associates.

We can also simplify the otherwise onerous and time-consuming responsibilities of being a trustee, through the appointment of fund administration specialists.

Similarly, we can work with you to develop an effective investment strategy that will help you achieve the financial objectives of your SMSF. Our approach to such investment advice is based on the recognition that no single investment strategy is right for every client.

Within the trustee-approved investment strategy, we draw on our resources and services to advise you on important investment considerations and decisions to assist you preserve and build your wealth.

Importantly, as your retirement needs change, we will work with you to ensure your SMSF continues to meet your requirements.

For more information on our Superannuation service please read our disclosure document, **Self-Managed Super Solutions**.

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## Markiewicz & Co. solutions and services

### Wealth management

The increasingly complex and constantly changing nature of legal and tax systems around the world requires wealth management strategies to be continually monitored and optimised. At Markiewicz & Co, understanding the global economic environment is a key component of our wealth management advice, which also takes into consideration your current life situation and future needs. Our wealth management services include:

- › Wealth overview and financial planning
- › Tax planning
- › Retirement planning
- › Estate and succession planning
- › Planning for a change of residence
- › Structures for wealth management
- › Wealth preservation and protection
- › Philanthropy

### Investment services

The Markiewicz & Co. Investment Advisory service enables clients to support their own investment decision-making with either a full-service Investment Advisory Mandate or a Tailored Investment Mandate. Both these mandates provide access to proactive and comprehensive investment advice, support and guidance. If you prefer to delegate your investment decision making, we also offer a Discretionary Mandate service whereby we monitor your holdings and make the investment decisions on your behalf, based on a jointly defined investment strategy.

Markiewicz & Co. investment products include: equities, options, futures, foreign exchange, fixed interest, investment funds, structured products, and margin lending.

### Portfolio administration

The Markiewicz & Co. Portfolio Administration Service (PAS) is a comprehensive wealth management service available only to private clients that provides portfolio administration and reporting across a wide range of asset classes. The service incorporates investment advice, trade execution and access to research, helping you make more informed investment decisions.

While you appoint us to administer your investment portfolio, you retain all decision-making authority.

### Research

With our forward thinking, “next trend” approach to the global economy and investment environment, Markiewicz & Co. conducts ongoing research to identify emerging trends and assess their future impacts. Our analysts develop region- and sector-specific strategies based on our unique and insightful investment viewpoint. Where required, we supplement our extensive internal research resources with the insights and findings of leading external research providers. Importantly, as an independent Australian-owned investment management firm, Markiewicz & Co is not influenced by institutional ownership.

### Corporate

The Markiewicz & Co corporate team offers access to deep expertise in developing specialised investment opportunities across all asset classes and industry sectors, and assists clients with IPOs and capital raisings. Eligible clients who qualify as Experienced or Sophisticated investors may be invited to take part in high-level investor programs, as well as offered access to an even wider range of investment options.

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## **Finding out more about Markiewicz & Co.**

To find out more about the range of Wealth Management and Investment services offered by Markiewicz & Co, please call us on **02 9225 0999** or visit our website, [www.markiewicz.com.au](http://www.markiewicz.com.au)

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