

# SUPERANUATION, RETIREMENT AND SELF - MANAGED SUPERANNUATION FUNDS



CALLAUGHANPARTNERS

ACCOUNTANTS & BUSINESS ADVISORS

PASSION | INTEGRITY | LOYALTY

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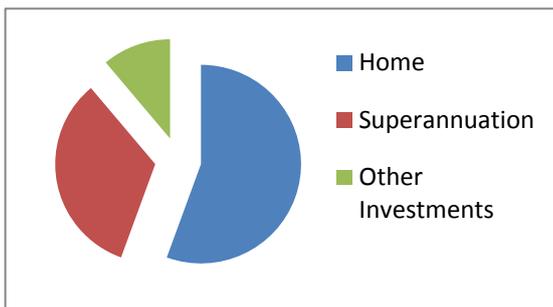
## Superannuation

If you are like many other Australians, your superannuation fund is likely to be the second largest investment after your family home.

So regardless of the superannuation structure you use it makes sense to put some effort into understanding this investment and ensuring it is working towards your retirement goals. The majority of Australian's disregard Super until it is too late.

This is due to the fact in most case you can't access your super until retirement. However, you should still be focused on making contributions and investing in your supers growth.

Our experience is people don't feel they have control or ownership over it. We give them back that control and create an investment plan that is going to reach their goals.



## They say things don't always go to plan.

Well at Callaghan Partners we focus on making things **ALWAYS** go to plan.

### Planning for retirement

Most of us have different ideas about when we'd like to stop work or begin to slow down. Retirement means different things to different people.

At Callaghan Partners we work with clients to determine their individual wants, needs and goals for retirement. As part of this process we prepare extensive fact finding data about our clients and use this information to tailor a plan that works.

Once we understand your retirement goals we can talk to you about other important questions such as:

- How much will you need?
- When can you access your Super?
- How can you maximise your age pension entitlement from Centrelink?
- How can you retire tax effectively?

## How much will you need?

Our advisers will spend time with you working out what your financial resources are: what assets do you have that can be used to generate an income for you, if you could benefit from government assistance and how we can make your income tax effective.

Superannuation is designed to provide you with an income in retirement. For majority it will be our only source of income. Your super balance will be determined by factors such as your attitude to risk and investment options, your age, investment decision and management of your investment. According to surveys, a single person living a modest lifestyle will need \$19,686 each year in retirement, while a couple living a comfortable lifestyle will need as much as \$51,132 each year to live on.

Often we find that your super won't give you enough to live on. We will work with you to design strategies to achieve your desired level of income. In order to achieve this you have to be prepared to start early and pay for great advice and management.

There are many smart ways to increase your super and other assets, and it always pays to understand your options. The starting point is GREAT advice and the difference is we will make it happen for you.

### When can you access your super?

The retirement choices available to Australians have changed a lot in the last few years.

Recently though, the government has put in place new options to help you “transition” to retirement. In other words, to ‘wind down’ gradually - perhaps by working part time, and accessing some super at the same time. This strategy may be available to you if you have reached your superannuation ‘preservation age’:

Date of Birth	Preservation Age
Before July 1960	55
From 1 July 1960 to 30 June 1961	56
From 1 July 1961 to 30 June 1962	57
From 1 July 1962 to 30 June 1963	58
From 1 July 1963 to 30 June 1964	59
On 1 July 1964 or after	60



### Age Pension

Generally, an individual isn't entitled to a pension until he or she meets their age base and certain income and asset criteria. For women, potential age pension entitlement starts from age 63.5 (depending on birth date) and men from age 65.

### Taxation - CALLAUGHAN PARTNERS MORE THAN JUST ACCOUNTANTS

At Callaghan Partners we are qualified accountants and business advisors which give you an added bonus when it comes to taxation strategies.

Contributions are taxed at 15% unless you exceed your cap where an excess tax of 31.50% will be charged.

Non-concessional contribution (after tax dollars) are tax free up to a \$150,000. You can use the bring forward cap of \$450,000 which is over 3 years.

Co-contribution, if you earn \$46,922 and you contribute \$1,000 the government will throw in \$500. It phases out at \$61,920.

# DO IT YOURSELF SUPERANNUATION



If you feel that your superannuation is not working for you, then you can do it yourself through a Self-Managed Superannuation Fund (SMSF). As the name suggests rather than outsourcing the management of your superannuation, you take greater control and responsibility over the management of your money.

SMSF's are now the largest and fastest growing segment of the super industry.

## An introduction to SMSF's

SMSFs have the same role as any other superannuation fund. The main difference is that the members of a SMSF are also the trustees of the fund. They control the investment of their superannuation monies, are responsible for day-to-day management and the payment of members benefits.

An SMSF will have different requirements, depending the trustee.

You can have one of the following:

- A corporate trustee; or
- Individual trustees

As all fund members are trustees of the fund this means that the fund members are in control of their own super. The member/trustees also take on all the legal responsibilities of the fund, including its annual SMSF tax return and appointing an auditor to audit the SMSF each year, which is all conveniently handled for you by CALLAUGHAN PARTNERS.



## SMSF contributions

Some of the types of contributions that an SMSF can accept include:

- mandated employer contributions (9% super)
- personal contributions made by employees or self employed members
- eligible spouse contributions
- superannuation co-contributions
- in specie contributions; and
- rollovers from other superannuation funds.

Just like other superannuation funds, eligible people, including those who are self employed, may be able to claim a tax deduction for the superannuation contributions they make.

## Investment choice

One of the main advantages of running your own SMSF is control and **CHOICE**. You choose where to invest.

A SMSF allows you to hold a variety of assets which can include:

- Cash
- Term deposits
- Real property
- Borrowing arrangements (in some instances)
- Managed funds
- Exchange traded funds, and
- Listed equities.

**Your SMSF can also pay for your Life & TPD Insurance.**

## ADVANTAGES OF SMSF

Greater control	A SMSF allows you to actively participate in the management of the fund as well as control the money flow of your investments This control provides you with more confidence as you can have control and say in the decision making process.
More options	A SMSF allows you to invest in a significantly broader range of options. These options include direct shares and investment property, real business property and alternative assets like art and antiques. It is also now possible to borrow fund through a non-recourse loan to purchase certain property investments. Of course all investments need to be made in keeping with the fund's investment strategy.
Flexibility	A Self-Managed Superannuation fund generally has the flexibility to meet all your superannuation needs. They are able to accept contributions from your employer in line with the choice of fund legislation. SMSF's are able to pay you a pension upon your retirement. There is also increased flexibility in implementing strategies to transfer wealth to the next generation. This makes a SMSF a long term financial planning tool.
Tax management	The tax rate on contributions and earnings in superannuation is generally a maximum of 15%. By using certain strategies involving the imputation credits from fully franked dividends, it is possible to reduce the tax rate, significantly in some instances. The trustees have greater control with the timing of buying and selling investments to obtain maximum tax efficiency. Once you move to pension phase, the earnings tax rate is 0%. This means that the imputation credits from fully franked dividends will be refunded into your superannuation fund, improving the post tax return on your investment. It also means that assets within the fund can be sold when capital gains can be <b>TAX FREE</b> .
Wealth protection through insurance	You have the flexibility to choose and hold Life, Total and Permanent Disability insurance policies that suit your needs within your SMSF. These policies will be paid for from the fund balance and are a tax deduction to the fund.
Privacy	A SMSF can offer its members a greater level of confidentiality about their employment and retirement affairs than other superannuation structures.
Cost	Costs can be fixed and reduced instead of a percentage based management fee.
Investment Properties	Now with the ability to borrow to invest in investment properties and sell that property <b>CGT FREE</b> once you have entered the pension phase. " <b>BRILLIANT</b> "

## DISADVANTAGES OF SMSF

Time & Responsibility	The trustees of the fund are responsible for making sure the fund is properly administered in accordance with the funds trust deed and investment strategy. The legislation requirements are a huge responsibility on the trustees. Such trustee responsibilities can be time consuming and a breach of superannuation law can result in severe tax penalties to the fund and in some cases fines and jail sentences. However it is possible for the trustees to seek professional help to run the fund, which can make the running of the fund less demanding.
Legal Obligations	Whilst an SMSF does offer a great deal of control and flexibility, it is not without limits. The superannuation law mandates that investments be made on an 'arm's length' commercial basis. The fund needs to be conducted for the 'sole purpose' of providing the members with retirement benefits. The laws concerning superannuation can be complex in some areas and it may be appropriate to seek professional advice from CALLAUGHAN PARTNERS to make sure you do not make any mistakes. Penalties include disqualifying you as a trustee, removing you as a trustee and freezing your SMSF assets and taxing you at the highest margin rate.
Costs	The cost involved with setting up and running a SMSF can be high due to the compliance costs.



### **Are you ready to be a SMSF Trustee?**

When you are considering setting up an SMSF, you need to understand the roles and responsibilities of being a SMSF trustee. The ATO provides a booklet on these responsibilities. As a trustee it is your responsibility to ensure that the SMSF complies with the relevant laws.

Some of the responsibilities of a trustee include:

- ✓ act in the best interests of all fund members when making decisions.
- ✓ manage the fund separately from their own affairs to ensure the fund meets the sole purpose test.
- ✓ ensure the money in the fund is only accessed where the law allows it.
- ✓ know, understand and complete their responsibilities and obligations
- ✓ lodge their SMSF annual return every financial year and pay the annual supervisory levy.
- ✓ have their SMSF audit each year by an accredited auditor.

In fulfilling their role as trustee they need 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 all members
- ✓ retain control over the fund.

### **Is a SMSF right for you?**

Before deciding to set up a SMSF you need to think about whether this arrangement will be suitable for your own personal needs, objectives and financial circumstances.

The flow chart below provides a starting point to help you understand some of the issues involved.

After you have read the flow chart you should contact one of CALLAUGHAN PARTNERS advisors.

# RETIREMENT NEXT EXIT

## FLOW CHAT

Do you want more control and involvement with your superannuation and investment decisions?

YES

NO

No SMSF

NO

Do you want to invest in a specific assets like shares or borrow to buy and investment property or real business property?

YES

What is your current superannuation balance? What is the current balance of your partners super? Do you consider you have the funds to start a SMSF?

YES

NO

No SMSF

Are you aware of all the rules, costs and benefits versus disadvantages. Are you still comfortable going ahead with a SMSF?

YES

NO

No SMSF

**CALL CALLAUGHAN PARTNERS NOW FOR A MEETING**

## Case study: Young 37 year old client considering SMSF.

Mark has a young business that has been operating for about 4 years. He approached us when he had the opportunity to purchase the premises that he was currently renting. Mark called us to seek our advice before he went ahead with any decision. After running through his financial situation both personally and for the business the following was decided: -

- We set up a self managed super fund for Mark. Mark purchased his currently leased premises through his SMSF which saved him on rent and also creates a tax effective structure for asset protection. We explained the benefits of using a Bare Trust to hold the property and the tax benefits and effectiveness of this structure if Mark is not to sell the property until he enters the pension phase.
- Mark wanted to look at using the remainder of his funds to invest in other assets to balance out his portfolio. We sat with Mark and discussed his goals and investment strategies to develop a financial plan for Mark. We charged Mark a fee to develop and implement his financial plan.
- Mark has a young family and never had any insurance. We set up Income Protection, Total & Permanent Disability Insurance through his SMSF. We also put a Trauma policy in place and well as Income Protection Insurance. Due to Mark's young family his wife only works casual 2 days a week and after discussing his situation Mark realised the importance of protecting himself and his family in the event of something happening.
- Tax effective strategies. As Mark was making a healthy profit in his Company and his cash flow allowed, we developed the strategy to contribute the maximum up to his age based limit being \$25,000. Mark will now pay tax on this money at 15% instead of 30%.

At Callaughan Partners we have been helping Self Managed Super Fund member's achieve a brighter future for many years. Please feel free to contact us for an obligation **FREE** appointment where we will discuss your situation and how we can help you to achieve what's important to you.



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