IS YOUR SMSF WORKING TO ITS FULL POTENTIAL?

RIGHT STRATEGY. RIGHT TIME.

securitor

WHILE MANAGING YOUR OWN SUPER PROVIDES INVESTMENT FLEXIBILITY AND CONTROL, THE BIGGEST CHALLENGE IS ENSURING THE DECISIONS YOU MAKE AROUND YOUR INVESTMENTS ARE THE RIGHT ONES.

AFTER ALL, THESE DECISIONS WILL DETERMINE HOW MUCH SUPER YOU WILL HAVE WHEN YOU RETIRE. THIS IS WHY IT'S IMPORTANT TO RECEIVE PROFESSIONAL FINANCIAL ADVICE WHEN IT COMES TO YOUR SMSF.

THE BIG QUESTIONS

1. WHAT IS THE RIGHT ASSET ALLOCATION FOR MY SMSF PORTFOLIO?

2. WHAT IS THE MOST EFFECTIVE WAY TO TRANSFER PERSONAL ASSETS INTO MY SMSF?

3. IS A BORROWING TO INVEST STRATEGY RIGHT FOR MY SMSF?

4. I'M A SMALL BUSINESS OWNER. WHAT ARE THE BENEFITS OF HOLDING MY BUSINESS PROPERTY THROUGH MY SMSF?

5. HOW CAN I MAKE SURE MY SMSF ASSETS ARE PROPERLY PROTECTED SO MY FAMILY GETS THEIR FULL BENEFIT?

This guide takes a closer look at some of the challenges SMSF investors face and helps you decide when it makes sense to seek expert advice.

1 WHAT IS THE RIGHT ASSET ALLOCATION FOR MY SMSF PORTFOLIO?

Managing your own SMSF is an exciting prospect but when it comes to deciding on your investment strategy a blank page can present as many challenges as it does opportunities.

Why is asset allocation so important?

Asset allocation is the corner stone of a successful investment strategy. It could have a bigger impact on your returns than the individual investments you choose. Your asset allocation determines how well your portfolio tolerates market volatility and will provide the diversification you need to get the returns you want over the long term.

Getting it right

The right asset allocation is different for each SMSF and will depend on your goals, how much risk you want to take on and your investment horizon. Your asset allocation will also need to change overtime as your lifestyle changes. Making sure you have addressed each of these issues is the first step in building the right asset allocation for you.

Do you know your true risk appetite?

Working out your risk appetite is not as straightforward as simply choosing between conservative, moderate and aggressive. In fact this tick box approach can be misleading. One person's 'moderate' maybe another's 'aggressive'. Maybe a better question to ask your self is, 'how much can I lose and still be comfortable?'This might give you a more accurate indicator of your risk appetite.

When to ask for advice

Emotion and investing just don't work. An objective approach is as important to the success of your SMSF as the investments you choose. It's helpful to talk through your investment strategy with your financial adviser who can help you understand your financial situation and how much risk you can take on without emotion getting in the way.

ASSET ALLOCATION
– PUTTING THE THEORY INTO PRACTICE

A core/satellite approach

A good place to start is to look at whether a core /satellite approach is right for you. With this approach you maintain the core of your portfolio in less risky assets such as simple equity, cash or fixed income, while the satellite gives you the opportunity to diversify into more aggressive or alternative investments.

You can take a more active approach with your satellite portfolio. And if your satellite portfolio does not do well, you can minimise the impact on your portfolio as a whole.

Where could different types of investments fit?

Core	Satellite
Examples of investments you could hold in the **core** of your portfolio include:	Examples of investments you could hold in the **Satellite** of your portfolio include:
• Cash and term deposits • High interest saving accounts • Diversified fixed interest • Tailored term deposits • Australian property • Simple equity investments such as managed funds or exchanged traded funds (EFTs) that track trhe Australian share market (S&P/ASX 200) and the global share market (MSCI World)	• Directly held shares • Self-funding instalment warrants • Specialist managed funds such as small caps, regional and hedge funds • Global property • Hybrid securities • Global fixed interest investments • Capital protected investments

Diversifying your cash allocation

On average, SMSFs allocate around 26%[3] of their portfolio to cash – a significant chunk of their investment. By diversifying your cash portfolio you can achieve more effective asset allocation.

One way to do this is to allocate your cash across a range of investments such as high interest savings accounts, fixed and floating rate term deposits and tailored term deposits such as inflation linked deposits.

3 Investment Trends 2011 SMSF Investor Report.

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WHAT IS THE MOST EFFECTIVE WAY TO TRANSFER PERSONAL ASSETS INTO MY SMSF?

Your SMSF can do more than just give you control over your investments. Holding assets in your SMSF can help you structure your super to achieve your financial goals in an effective way.

So how does it work?

You can transfer certain assets into your SMSF using an in-specie contribution or your SMSF trustee can purchase the asset from you. Eligible assets may include:

- ASX listed securities acquired at market value
- Managed funds that are widely held unit trusts
- Business real property at market value.

What is an in-specie contribution?

An in-specie contribution is a contribution to an SMSF in the form of an asset other than money. You can make a contribution to your SMSF by transferring the ownership of certain personal assets off-market from yourself to the trustee of the SMSF. The value of the asset will then be allocated to the SMSF.

Purchase of the asset by your SMSF

Your SMSF can buy the asset from you at its true market value. You receive the cash value of the asset from your fund, in exchange for transferring ownership of the asset to the trustee of the SMSF. This method is not classed as a contribution. The SMSF needs to have available funds to make the purchase.

When to ask for advice

In the right circumstances transferring assets into your SMSF can be a great strategy. But there are a few things you need to bear in mind:

- you won't be able to access the value of the asset until you can access your superannuation after reaching your preservation age[4]
- you may have to pay stamp duty on the managed funds and any property that is being transferred
- if you use the contribution method, care should be taken not to exceed contributions caps
- the transfer may have capital gains tax implications as the ownership of the asset will change from you to the trustee of the SMSF.

Getting it wrong could see you incur additional costs such as stamp duty, capital gains tax or excess contributions tax. Or you may not have enough investments that you can access prior to your preservation age. So speak to your financial adviser about whether a sale or an in-specie transfer is appropriate for your financial goals.

4 From 55 to 60 depending on when you were born.

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IS A BORROWING TO INVEST STRATEGY RIGHT FOR MY SMSF?

Borrowing to invest within your SMSF follows similar fundamental principles as borrowing to invest outside your SMSF. If you invest in a quality asset that generates income and increases in value over time, you can increase your returns by using borrowed funds to invest in these assets. On the other hand, if you invest in poor assets which lose value, your losses will be proportionately greater.

Why borrow to invest?

Put simply, with more money to invest you can increase your exposure to the market and diversify your portfolio. There may also be associated tax outcomes from borrowing to invest within your SMSF:

- any income from the investment will be taxed at a maximum rate of 15%
- interest payments maybe a deductible expense of your SMSF
- your SMSF won't have to pay any capital gains tax if the investment is sold once your SMSF is in pension phase and paying pensions to its members.

You should always remember that borrowing to invest can magnify your losses as well as your gains.

When to ask for advice

One key difference when you borrow through your SMSF is that you need to ensure the loan you use meets the SMSF borrowing rules.

The SMSF borrowing rules at a glance

- The loan must be limited recourse
- The loan must be used to purchase a single acquirable asset that is an eligible SMSF investment
- The asset must be held in trust for the SMSF, with the SMSF holding a beneficial interest in that asset
- The SMSF has the right to acquire the asset following the SMSF making one or more subsequent payments.

The rules around borrowing are quite complex, ensure you speak to your financial adviser before borrowing to invest within your SMSF.

BORROWING TO INVEST – PUTTING THE THEORY INTO PRACTICE

Our handy summary takes a closer look at a few of the pros and cons of borrowing to invest within your SMSF over the two most common assets property and shares.

<table>
<tr><th colspan="2">Borrowing to invest in shares</th></tr>
<tr><th>Pros</th><th>Cons</th></tr>
<tr><td>Products such as instalment warrants are specifically designed for SMSFs and provide the following features:
• Easy to access as they are listed on the ASX
• You can borrow as little as $2,000
• There are no credit checks required
• There are no margin calls
• As you own more shares you'll increase your potential to receive dividends and you may be entitled to the benefit franking credits on those dividends
• You may be able to use any excess franking credits to offset contributions tax payable by your SMSF
• Interest on the loan may be deductible for the SMSF (subject to the capital protected borrowing rules)</td><td>• You have to pay interest on the funds borrowed
• Borrowing to invest can magnify your losses as well as your gains
• Your risk appetite should be able to tolerate periods of volatility in the market, as the value of the shares could fall significantly if there is a market disruption
• The interest on the amounts borrowed to invest in instalments warrants may be higher than the dividends received from the underlying securities
• Interest rate increases will result in additional interest costs being incurred on the amount borrowed
• Your ability to borrow to invest in shares may be impacted by changes in law and administrative practice</td></tr>
</table>

BORROWING TO INVEST – PUTTING THE THEORY INTO PRACTICE

Borrowing to invest in real property	
Pros	**Cons**
• Your SMSF can choose the real property and decide who to lease the property to and whether to sell the property at some time in the future • Your SMSF benefits from any rental income • Interest on the loan may be deductible for the SMSF • Your SMSF can acquire property worth more than its available cash funds • In the event of default other SMSF assets are secure as the lender does not have recourse to any of your SMSF's assets apart from the purchased property • Your SMSF receives all income and potential capital growth even if the property has not been paid off • Your SMSF can use income from the property to help pay off the loan • There are loan products available designed specifically with SMSFs in mind	• You have to pay interest on the funds borrowed • Borrowing to invest can magnify your losses as well as your gains • Your risk appetite should be able to tolerate periods of volatility in the market • There are legal fees and stamp duty to pay when you purchase the property as well as annual insurance costs, council rates, water rates, agent's management costs and strata levies where applicable • There are restrictions on whether the property can be improved, developed or sub-divided whilst there is a loan attached • There may be additional costs associated with rental property or maintenance • The rent for the business real property paid to the SMSF by any related parties must be at market rates • You must purchase the property from an unrelated party unless it is a business property (generally a real property used for business purposes) • Residential or non-business property cannot be leased to, or used by a fund member or any of their relatives or associates • Any rise in interest rates will increase the amount added to the loan as interest • Your ability to borrow to invest in property may be impacted by changes in law and administrative practice

4

I'M A SMALL BUSINESS OWNER. WHAT ARE THE BENEFITS OF HOLDING MY BUSINESS PROPERTY THROUGH MY SMSF?

For small business owners getting value from your business is a primary goal.

Your SMSF can provide the opportunity to structure your business in a more effective way. The benefits of holding your business property through your SMSF include:

- A potential source of income and potential capital growth for your SMSF
- Stability for the business – the trustee of your SMSF is your landlord
- Tax on the rental income is at a maximum rate of only 15%
- If the asset is held for more than 12 months, only two thirds of any capital gain is taxable (effective 10% capital gains tax rate). If the property is sold when your SMSF is in pension phase no capital gains tax will be due
- Superannuation may provide some asset protection in certain circumstances
- The value of assets in superannuation doesn't count against the Net Tangible Asset test for access to the Small Business CGT Concessions which you may want to access when you eventually sell your business.

If you already own the business real property you may be able to transfer the property to your SMSF, either as a contribution, sale or a combination of the two. If you don't own the property then your SMSF can buy the property, either using a loan or cash.

Contribution caps – a quick reminder

- Personal contributions are limited to $150,000 p.a. (or $450,000 over three years if you're under 65)
- Tax deductible contributions are limited to $25,000 p.a. (or $50,000 p.a.for those over 50 until 30 June 2012)

When to ask for advice

When transferring property to your SMSF you must comply with the relevant rules. Your financial adviser can help you make sure you get your investment strategy right.

When transferring property to your SMSF you must comply with the relevant rules.

5

HOW CAN I MAKE SURE MY SMSF ASSETS ARE PROPERLY PROTECTED SO MY FAMILY GETS THEIR FULL BENEFIT?

Having control over your investments is a well known benefit of having an SMSF. Not as well known is the control your SMSF gives you over your estate planning.

Protecting your assets is fundamental to achieving your estate planning goals. It may make sense to purchase insurance through your SMSF.

What type of insurance can I buy?

There are three types of insurance commonly held in SMSFs:

- Life insurance – which pays a benefit on the death of a member
- Total and permanent disability – which pays a lump sum on permanent disability of a member
- Income protection – which pays a regular income benefit if a member is unable to work temporarily.

Looking after your family

Most people don't realise their Will may not apply to the assets held by their SMSF. The first thing to do is make sure that you have a valid death benefit nomination in place. You then have a number of options on how your SMSF can pay out death benefits to your beneficiaries following your death:

- A lump sum payment
- An ongoing pension
- Reversion of your existing pension to your spouse
- Potential payment of an additional anti-detriment payment in some circumstances.

If set up correctly, your SMSF can be a great way to pass your assets onto your family in an effective way.

When to ask for advice

Even though an insurance policy may not have a specific cash value, it is considered an asset for the purposes of superannuation legislation. So you will need to make sure the acquisition of asset rules are not breached.

Each estate planning option may have different tax outcomes for your beneficiaries.

It's important to talk to your financial adviser to work out the most effective strategy for your circumstances.

PROTECTING YOUR ASSETS – PUTTING THE THEORY INTO PRACTICE

Let's assume John's premium for his life (death) cover for the year is $2,000 and he is in the top marginal tax bracket which is 46.5%.

OPTION 1

John's life (death) cover is held outside super

If John pays his premiums outside super he needs to earn $3,738 pre-tax to cover the cost of his annual premium. The amount of $3,738, minus his income tax of $1,738, leaves $2,000 to pay his premium.

His pre-tax salary	$3,738
Minus his income tax @46.5%	$1,738
Minus his premium	$2,000
Cash	$0

OPTION 2

John's life (death) cover is held by his SMSF

In most cases when life cover is held by your SMSF the premiums are tax deductible to your fund. To take advantage of this John decides to hold his life cover through his SMSF. He salary sacrifices $2,000 of his pre-tax salary into his fund to cover the cost of his annual premium.

John only needs to salary sacrifice $2,000 of his pre tax salary as the 15% tax due on the amount the salary sacrifices can be offset against the 15% tax deduction generated as his SMSF is paying his annual life cover premium.

The result is that John has an extra $930 that year.

His pre-tax salary	$3,738
Minus his salary sacrifice	$2,000
Remaining salary	$1,738
Additional cash after tax @ 46.5%	$930

These outcomes may vary with the type of insurance used, the marginal tax rate of the member, the ability to contribute within the relevant concessional caps and your personal circumstances. It's also important to note that the benefit paid from the policy if a claim is made may be taxed differently when paid from the SMSF, compared to it being paid to John personally to his estate.

Protecting your assets is fundamental to acheiving your estate planning goals.

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SPEAK TO YOUR FINANCIAL ADVISER TO ENSURE YOUR SMSF IS PERFORMING TO ITS FULL POTENTIAL.