Client Focused Financial Planning
*We share ideas*

# UNDERSTANDING SUPER FUNDS

There are many different ways to invest into the superannuation environment each with its own advantages and disadvantages.  Fundamentally they all operate the same way and receive the same treatment from the tax office.  A common misconception that people have is that they think of superannuation as an 'investment'.

**A superannuation fund is a trust, not an investment, how the money is allocated within the trust is the investment.**

For example you could have all of your money in your superannuation fund invested in an everyday bank account and never have to worry about what is happening on the share market.  You would never suffer a negative return but you wouldn't get much interest.  It is entirely up to you how your money is invested.  These days just about every type of super fund offers multiple investment options.

What tends to happen to most people though is they never instruct the super fund how to invest their money.  Therefore the super fund invests in the 'default' option, and that is usually a fund that has a mix of safe investments such as cash and fixed interest and more volatile investments such as Australian and overseas shares and property trusts.  So when the share markets suffer a fall such as the GFC or the more recent European crisis the investment option they are in suffers a negative return.  But it is not the superannuation fund trust that has lost money; it is the choice of investment option within the trust that has led to the fall in value.  If your money had been all in the more secure options such as cash then you would have been unaffected by the share market crash.

So whether you are in an industry fund, a wholesale retail fund or in your own Self Managed Super Fund (SMSF) you have the choice about how to invest the money within the fund.

To help you decide what is best for you I have outlined some of the key issues that you need to consider.

**<u>Industry/Employer Super Funds</u>**

**Benefits**

- Low Cost
- Investment Choice (Although can be limited)
- Can invest in direct shares (Not all shares listed on ASX as the list of shares is usually limited)
- Offer accumulation and retirement income products (Not all offer TTR pensions)
- Will accept all types of contributions
- Allow Switching
- Administer all of the paperwork and compliance
- Online Access

**Disadvantages**

- Accessing funds can be difficult if your employer pays into the fund
- Can be locked in via an EBA
- Investment choice is usually limited
- Bureaucratic
- Not included on financial planners approved products lists
- Cannot own direct property
- Limited Control

## Wholesale Retail Master Trusts/ Retail Funds

### Benefits

- Low cost (can be cheaper than some industry funds)
- Wide investment choice
- Wide selection of direct shares
- Full accumulation and retirement income products
- Will accept all types of contributions
- Access to wholesale investment funds
- Administer all of the paperwork and ensure compliance
- Online access

### Disadvantages

- Bureaucratic
- Cannot own direct property
- Limited Control

## Self Managed Super Funds

### Benefits

- Can own direct property
- Can own any listed or unlisted share
- Can use tax effective investments to minimise tax
- If sufficient funds can access wholesale managed funds directly
- Can be segregated to pay pensions and remain in accumulation
- Can borrow to buy property (Complex and needs specialist advice)
- Can accept all contributions
- Members have total control
- Could be more cost effective than the other options

### Disadvantages

- Same rules apply to SMSF as any other super fund
- Significant responsibility on trustees to ensure fund stays compliant
- Subject to ATO audit at anytime
- Accountant who sets it up may not be a specialist in this area
- Ceding control and responsibility to others, such as your accountant
- Not fully understanding your responsibilities and potential ongoing costs
- More members equals more complexity

**Important information**



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