SA METROPOLITAN FIRE SERVICE SUPERANNUATION SCHEME

SUPER INFO

Spring 2014

Welcome to the Spring 2014 edition of Super Info

What's inside:

Australian retirees supported by one of the best pension systems in the world

Provided by Mercer

Rising superannuation guarantee (SG) payments have helped boost the world ranking of Australia's retirement savings system which has jumped to second place in this year's Melbourne Mercer Global Pension Index rankings.

The boost to SG payments from 9% to 9.5% over the past 16 months was the key reason for Australia's rise in the rankings which saw it place ahead of the Netherlands for the first time in five years and fall just short of Denmark.

The Melbourne Mercer Global Pension Index, now in its sixth year, measures the adequacy, sustainability and integrity of pension systems in 20 countries, covering 55% of the world population. Each country is given a score between 0 and 100.

Australia's overall score increased to 79.9 in 2014 from 77.8 in 2013. However, despite being ranked in the top two systems in the world, an 'A' grade continues to elude us, reminding us there continues to be room for improvement.

Denmark continued to hold onto the top position in 2014 with an overall score of 82.4. Denmark's well-funded pension system with its good coverage, high level of assets and contributions, the provision of adequate benefits and a private pension system with developed regulations are the primary reasons for its top spot.

Read more about the rankings and Mercer's recommendations at www.mercer.com.au.

Reality tarnishes 'golden years' dream

Provided by Mercer

The average Australian will outlive their savings by more than five years, new research shows. The average superannuation payout for male retirees in Australia is $180,000.

Mercer's latest research paper, based on a survey of more than 1500 people aged between 50 and 80 years, shows Australians are living longer and retiring earlier than they anticipated.

Key findings from the research include:

- 50% of the population underestimates their life expectancy by more than 2 years
- 40% of Australians are forced to retire before they are financially ready, due to redundancy or health reasons
- Only 36% of Australians retire because they have enough savings

Mercer's Managing Director and Pacific Market Leader, David Anderson, said many Australians failed to achieve their retirement goals due to events beyond their control.

"We're living longer but it doesn't appear we work for as long as we intend or that we know how to ensure our money lasts for as long as we will," Mr Anderson said. "This disconnect will leave a gaping hole in our hip pockets in our golden years."

Mr Anderson said the age most Australians planned to work compared to their actual retirement age highlighted this 'disconnect' between expectations and reality.

- Only 1 in 5 Australians expect to retire between the ages of 55 and 64 years but in reality, 3 in 5 retire at this age
- A massive 42% of the population plan to work beyond age 70 but in reality, a miniscule 3% manage to remain in the workforce so long
- Only 1 in 3 people will engage a financial adviser to protect them against the risk of outliving their savings

"The reality is, uncontrollable triggers can derail the best laid plans for retirement," Mr Anderson said. "Although there are many unknowns when it comes to retirement, preparing now will help ensure unforeseen circumstances don't throw a spanner in the works."

For more detailed results of Mercer's research go to www.mercer.com.au.

Don't leave your golden years to chance. We recommend you speak to a financial adviser who can help you understand where you're at and determine the right plans to get you where you want to be.

Self-managed Superannuation – Is it right for you at retirement?

Provided by Mercer

Superannuation funds in general

A superannuation fund is an investment vehicle that is established and maintained primarily to provide retirement benefits.

Most people experience their first super fund when they start working and their employer pays Superannuation Guarantee contributions on their behalf. These super funds are usually managed by an independent trustee and members may have a choice as to the investment strategy that their funds are invested in, but generally do not have a say as to the specific investments that are chosen or how the super fund is administered.

All super funds must have trustees. While each super fund has its own rules, the trustees must also comply with specific government legislation which is designed to help ensure that the superannuation savings of the members are properly managed.

Forgotten your PIN?
Call the Helpline on 1300 132 573 and one of our friendly consultants will assist you.

What is a self-managed superannuation fund?

It is possible for an individual to establish their own superannuation fund – these are referred to as 'self-managed superannuation funds' or 'do-it yourself superannuation funds'.

Generally, a self-managed superannuation fund is a super fund where:

- There are fewer than five members,
- Each member of the fund is also a trustee (or a director of a corporate trustee),
- No member of the fund is an employee of another member of the fund unless they are related, and
- Trustees (or directors of corporate trustees) do not receive any remuneration for their services as a trustee.

Self-managed superannuation funds are not for everyone and there are many reasons why this type of fund may not be appropriate. See the section "Is self-managed superannuation appropriate for you?" for details.

How much do you need to have to invest in a self-managed superannuation fund?

The ATO booklet "Thinking about self-managed super" (see the Other information to help you make up your mind section below) gives a general guide as to how much you need to have in super in order to establish a self-managed superannuation fund.

What are the benefits?

It is our experience that individuals who desire a high degree of control over their superannuation savings are generally interested in what self-managed super may offer. The control is usually in relation to how their superannuation savings are invested and, to a degree, the costs associated with running the fund.

Selection of investments

Generally, with super funds other than self-managed superannuation funds, a member may have a choice of investments but only from the range that is made available within that product.

On the other hand, subject to a few legislative restrictions, a self-managed superannuation fund allows access to a large range of investments – managed funds, fixed interest, real property (residential and commercial), instalment warrants, and access to a full range of listed securities – both domestic and international.

The trustee is responsible for the design of the asset allocation, selection of assets and all investment decisions.

They can create an individual investment portfolio for each member or one investment strategy for the whole fund.

Following changes to legislation on 24 September 2007, trustees of self-managed superannuation funds are even able to borrow – that is, to pursue a geared investment strategy. However, there are specific legislative requirements that must be complied with in order for the borrowing to be allowed.

Costs

The costs associated with a self-managed superannuation fund can be broadly classified as:

- **Fixed costs**

These include establishment fees and statutory charges such as audit and accounting fees.

- **Variable costs**

These include ongoing administration and investment management fees. There may also be times when actuarial or legal fees will be incurred. These are harder to quantify because they will depend on issues such as the level of assistance sought from external advisers, the size of the fund, and the frequency that assets are bought and sold.

Due to the nature of the fixed costs, they cannot be avoided regardless of how much personal time is spent running a self-managed superannuation fund. Variable costs, however, can be minimised and the level incurred will depend on how much of the activities associated with the operation, administration and compliance of the fund are managed by the trustees personally, and how much is outsourced to professional advisers, such as lawyers, accountants and financial advisers and the cost of those professional services. Additionally, self-managed superannuation funds have reduced reporting requirements, thus potentially reducing the cost of maintaining the fund.

However, these benefits come with the additional responsibility of the members being trustees.

Responsibilities of being a trustee

A trustee must manage all regulatory (Superannuation Industry (Supervision) Act (SIS Act) and regulations) and administrative (income tax and GST) obligations. Each trustee is ultimately responsible and accountable for ensuring that they comply with all the laws relating to superannuation, taxation and trust law as well as the rules within their own trust deed, even where the trustee engages professional advisers to assist them with the management of the self-managed superannuation fund.

While there are many others, some of the trustee responsibilities include:

- Ensuring the fund complies with the sole purpose test,
- Lodging an annual income tax return and a superannuation fund annual return,
- Maintaining records,
- Ensuring there is an investment strategy and that investments are maintained in line with that strategy,
- Ensuring that super fund monies are not used to provide loans or assistance to members or relatives,
- Ensuring that super fund money is not accessed by members until they meet a condition of release,
- Acting honestly and in the best interest of all the members of the fund,
- Keeping the money and assets of the self-managed superannuation fund separate from personal assets, and
- Retaining control over the fund at all times.

Understanding the following obligations is particularly important when running a self-managed superannuation fund:

- **Sole purpose test**

The sole purpose test means that a self-managed superannuation fund must be maintained for the sole purpose of providing benefits to members upon retirement or to their dependants if a member dies before retirement.

The assets of the fund cannot be used to provide a personal benefit – such as buying a residential or holiday home, art or jewellery that is then used by the members or a related party (which includes relatives, business partners and any companies or trusts that they control). Specifically, you cannot run a business through a self-managed superannuation fund.

- **Documenting and maintaining an investment strategy**

Every self-managed superannuation fund must have a documented investment strategy. The strategy should set out the investment objectives of the fund and the methods the fund will adopt to achieve those objectives. Trustees must then ensure that all investment decisions adhere to the investment strategy.

- **Managing the fund's assets**

A trustee may invest the self-managed superannuation fund monies plus any contributions in any asset or particular asset class, as long as it doesn't breach any of the legislative provisions – particularly the two above. This opens the way for self-managed superannuation funds to invest in assets that are not normally made available through retail and master trust types of super funds, such as residential property, direct shares and even antiques and artwork (as long as they are in line with the sole purpose test and the investment strategy of the fund). However, with some exceptions, including listed securities and business real property, trustees of a self-managed superannuation fund cannot acquire an investment from a member or a related party.

As indicated above, recent legislative changes now enable self-managed superannuation funds to borrow, but only on very restricted terms. Before entering into a borrowing arrangement, a trustee of a self-managed superannuation fund should obtain professional legal advice to ensure that their proposed arrangement complies with the relevant legislation.

The Australian Taxation Office (ATO) is the regulator for self-managed superannuation funds and is responsible for ensuring that trustees meet their obligations.

Generally, the ATO provides a range of education material for trustees and works with them in order to ensure they comply with all the relevant legislation. Where the ATO considers a trustee has failed to make a genuine effort to comply with legislative and administrative requirements, or has set out to deliberately avoid meeting their legal obligations, the trustee may:

- Lose their tax concessions (tax of 45% may apply),
- Be disqualified as a trustee,
- Be subject to administrative penalties, or
- Be prosecuted.

Running a self-managed superannuation fund

While a trustee has many responsibilities, they may engage the services of professionals to assist with their administrative obligations and to help them meet all the legal responsibilities.

For example, a lawyer can draft legal documentation – such as trust deeds, minutes, and other formal documents – while an accountant can assist with tax and lodging returns and in some cases, also offer an administration service.

There are also a number of independent administration services you can subscribe to which provide a range of services from trust deeds, to tax returns, audits and day-to-day administration.

A financial planner or investment adviser can assist in developing an investment strategy and provide guidance, assistance and management to ensure the investments of the fund are in line with the investment strategy.

Trustees can decide on the level of involvement they wish to take on in managing their self-managed superannuation fund and, subject to cost, may outsource some or most of their functions. However, it is important to remember that trustees are bound to retain control over the fund and that the ultimate responsibility and accountability for running the fund in a prudent manner lies with the trustees. They should always ensure they understand everything that is happening within their self-managed superannuation fund.

Is self-managed superannuation appropriate for you?

Self-managed superannuation funds are not for everyone and there are many reasons why this type of fund may not be appropriate. We strongly recommend that you obtain advice from a licensed or appropriately, authorised financial adviser before making any decisions about establishing a self-managed superannuation fund.

The decision to establish a self-managed superannuation fund requires you to consider your skill, desire for control, ability and willingness to take on the duties and responsibilities of a trustee. You should consider that:

- Superannuation is a highly regulated and complex legal area. Trustees are solely responsible and accountable for ensuring that they adhere to all the laws relating to superannuation, taxation and trust law.
- There may be significant time required to manage and co-ordinate the operation of a self-managed

superannuation fund. This time increases with the amount of control you wish to exert, particularly for investment. The management commitment and complexity also increases in retirement through the administration of income streams. This typically becomes more onerous with age.

- A properly run self-managed superannuation fund will incur costs associated with strategic advice, administration, accounting, auditing, investment advice and management and other professional services such as those from lawyers and actuaries. These costs may make a self-managed superannuation fund a more expensive option than other superannuation vehicles.

Some of the questions you might ask yourself are:

- What is my main driver for wanting a self-managed superannuation fund?
- Do I (and any other members/trustees) have the time and expertise required to devote to the fund?
- Can I produce a better result than my existing superannuation fund that is managed by professionals?
- How much will it cost and do I have enough superannuation savings to make it cost-efficient?

Other information to help you make up your mind

If you are interested in establishing a self-managed superannuation fund, the Australian Taxation Office has several informative publications which you may wish to read, available at **https://www.ato.gov.au/Super/Self-managed-super-funds/**.

Further, the Australian Securities & Investments Commission has information in the superannuation section of its consumer website (FIDO), which you can access at **www.fido.gov.au/fido/fido.nsf**.

Alan Kent
Manager

Important Check List Reminder

1 **Change of Address** Have you advised the Scheme of your change of address?

2 **Nomination of Beneficiary Form** Is your Nomination of Beneficiary form up to date?

3 **Leave Without Pay** Are you going on Leave without Pay? If so, all your insurance cover may cease.

4 **Long Term Sick leave** Members under age 60, is your sick leave due to run out?

5 **Maternity leave** Are you going on maternity leave and when will wages cease - as your insurances will be affected.

6 **Working less than 15 hours per week** For Defined Benefit Members working less than 15 hours per week, your insurance cover will be reduced to Death insurance only.

Death insurance will cease if you are working less than 10 hours per week.

Please advise the Scheme on any of the above and contact the Manager, Mr Alan Kent on* ***8204 3826* *for any clarification you may require. Information is also available in the Member Benefit Guide on the website* ***www.samfs.superfacts.com.***

Note: *If you are on extended leave at any time, you can always access the Super Info on the website* ***www.samfs.superfacts.com.***

7 **Salary Sacrifice Forms** Please ensure you send in **original** signed Salary Sacrifice forms to this office. We cannot process faxed or scanned copies. We need the originals to be signed off by the employer before forwarding to Shared Services.