

SMSF

SELF MANAGED SUPER FUND

★ ★ ★ **VS** ★ ★ ★

SAF

SMALL APRA SUPER FUND



WealthAdviser

Contents

Before you get started	2
Letter from the Wealth Adviser Library	3
Introduction	4
SAFs and SMSFs: the similarities	4
SAFs and SMSFs: the differences	4
Advantages of making use of SAFs	5
Possible disadvantages of making use of SAFs	6
Setting up a SAF	7
Conclusion	8
Take the next step	8



Before you get started

This digital handbook contains general and factual information only, and is part of the Wealth Adviser library, published by:

- Wealth Today (AFSL 340289)
- Sentry Advice (AFSL 227748)
- Synchron Advice (AFSL 243313)
- Millennium3 (AFSL 244252)

Before acting on any information contained herein you should consider if it is suitable for you. You should also consider consulting a suitably qualified financial, tax and/or legal adviser.

Information in this handbook is no substitute for professional financial advice.

We encourage you to seek professional financial advice before making any investment or financial decisions. We would obviously love the opportunity to have that conversation with you, and at the rear of this handbook you will find information about our authorised representative and how to go about booking an appointment.

If ultimately you decide not to meet with us we still encourage you to consult with another suitably licensed and qualified financial adviser.

In any circumstance, before investing in any financial product you should obtain and read a Product Disclosure Statement and consider whether it is appropriate for your objectives, situation and needs.

© WT Financial Group Limited (ABN 87 169 037 058) 2021

This publication is protected by copyright. Subject to the conditions prescribed under the Copyright Act 1968 (Cth), no part of it may be reproduced, adapted, stored in a retrieval system, transmitted, or communicated by any means; or otherwise used with without prior express permission. Enquiries for permission to use or reproduce this publication or any part of it must be addressed to WT Financial Group by email to info@wtfglimited.com.

Letter from the Wealth Adviser Library

Dear Reader

Welcome to the Wealth Adviser Library

This library was built specifically to facilitate the provision of sound financial information to everyday Australians.

Our mission is to build an accessible, comprehensively supported team of members who share our vision and commitment to providing tailored financial advice and a new foundation of financial understanding and security for everyone.

With a national network of likeminded experts, we have the potential to provide the financial building blocks for future generations.

Knowledge gives you a huge advantage

We believe that knowledge gives you a huge advantage in creating and effectively managing wealth; in planning to reach your goals; and in being prepared for whatever unexpected twists and turns life may present.

That's why our team of experts has created this series of digital handbooks and manuals that seek to inform you of not only the benefits but also the potential risks and pitfalls of various strategies and investments.

We trust you enjoy this publication and find it informative and professionally presented. Of course, your feedback is always welcome as we strive to continually offer content in a format that is relevant to you.

Take the next step

Wealth Adviser (a division of WT Financial Group Limited) supports more than 400 privately owned and operated advice practices around the country. We invite you to engage with one of our advisers to discuss what it was you were hoping to achieve when you obtained this handbook, and to establish if they can help you achieve your goals and objectives.

At the rear of this handbook you will find details on how to book an appointment.

Wealth Adviser Library



Introduction

One of the most significant stories in the world of personal finance over the past decade or so was the rise and rise of Self-Managed Super Funds (SMSFs). SMSFs provided, and continue to provide, investors with the opportunity to take control of retirement preparation in flexible and accessible ways. No wonder then, that SMSFs grew from what could initially safely be described as a niche product to becoming a force to be reckoned with in the investment landscape. There are, however, some people who shy away from the SMSF route for a variety of reasons. These reasons may include: Being disqualified from being a trustee, prolonged overseas residence or concerns about their personal capacity to act as a trustee for a SMSF.

People with the concerns listed above should not regard themselves as permanently excluded from the world of self-managed retirement vehicles. There is a relatively unknown product that can grant them access to a wide range of investment options while also, at the same time, allaying the fears of non-compliance or ineligibility that some investors may have.

The full name of this particular investment vehicle is quite a mouthful: Small Australian Prudential Regulation Authority Funds.

Fortunately, it is much more common to refer to it as SAFs!

SAFs share many similarities with SMSFs but there are also crucial differences which should make them attractive investments for certain types of investors. The purpose of this eBook is to provide an overview of SAFs to enable you to come to an informed decision on whether it could perhaps be an answer to your particular investment needs. We will begin by comparing and contrasting SMSFs and SAFs.

SAFs and SMSFs: the similarities

Both SMSFs and SAFS allow investors to move beyond the offerings of 'retail funds' by investing in a wide range of asset classes.

In both cases the investment activity undertaken by the fund should be geared toward providing retirement income.

Stringent regulations are in place to ensure that this is the case.

Some other similarities shared by these types of funds are the following:

- Funds may not have more than four members
- Fund assets are held in the name of trustees (although, as we shall see in the next section, the type of trustee will be different in the case of the SAF)
- Investors are able to exercise a significant degree of control over investment decisions Regular financial reports have to be submitted to the appropriate regulators

SAFs and SMSFs: the differences

Here are, as mentioned above, significant differences between SAFs and SMSFs. Most important among these are the following:

Different Regulators

SAFs are regulated, in terms of compliance to superannuation legislation, by the Australian Prudential Regulation Authority (APRA) while their tax affairs are overseen by the Australian Taxation Authority (ATO).

SMSFs are overseen by ATO, both in terms of compliance with legislation and taxation. This means that SAFs generally have more complex reporting and compliance regimes. This is mitigated, however, by the fact that fund administration has to be in the hands of professionals (see below).

Different Trustees

With an SMSF fund members can serve as trustees of the fund. This is not allowed in the case of SAFs. In this case trusteeship will have to be provided by a professional trustee licensed by APRA. This independent professional trustee holds the ultimate responsibility for making fund decisions. This does not mean that independent trustees act completely without direction from fund members.

Fund members can still provide significant levels of input regarding certain types of investments, as long as those investments fit within the parameters set out by the trustee.

It is, therefore, very important that fund members investigate the investment strategies and preferences of specific trustees before 'signing on the dotted line'.

Different Membership Rules

There are certain people who, by law, cannot act as the trustee of a super fund.

For example:

People who have been banned by ATO or APRA from acting as trustees of SMSFs. This often happens in cases where the regulator has come to the conclusion that an individual is not a fit and proper person for such a role and should therefore be disqualified.

Investors are not allowed to act as trustees in cases where they have committed crimes involving dishonesty (e.g. fraud, theft or embezzlement).

People who have been declared bankrupt may also not serve as trustees.

On the face of it, it would seem that people who are subject to these restrictions would be completely excluded from participating in the burgeoning small scale super fund sector. This is where SAFs can provide a lifeline.

Since SAFs have a professional trustee, to whom these restrictions will obviously not apply, 'restricted' investors can use these funds as an effective way to access this market.

Advantages of making use of SAFs

There are several reasons why investors might choose to make use of SAFs.

The most significant among these are:
Lowering the risk of non-compliance

One of the most stressful aspects of managing a SMSF is ensuring that funds remain in compliance with relevant legislation and regulations. Mistakes and missteps in this regard can obviously be very costly and difficult to unwind. Since the trustee of a SAF will be a professional the risk of non-compliance is lowered significantly. Risks associated with non-compliance are also transferred from members to the professional trustee. This may prove to be a significant load off the mind of many investors who do not feel comfortable with shouldering the burden of actively managing the fund.

Less stringent residence requirements

SMSF trustees must ensure that the fund is actively managed at all times (this is mandated by the so-called 'Central Control and Management Test'). One of the implications of this requirement is that SMSF members have to be ordinarily resident in Australia. This is because the regulator may rule that overseas fund members are not able to actively manage the fund, thus rendering the fund non-compliant. Such a ruling could land a fund with a whopping 46.5% tax bill! Investors heading overseas for extended periods do have a lifeline in the form of SAFs however. The professional trustee of a SAF will by definition be domiciled in Australia thus satisfying residence requirements. Expatriate investors would therefore be well advised to convert their SMSFs into SAFs before departing.

Providing a lifeline to those unable to continue their management of funds

It has often been said that change is the one constant of life! This certainly also applies to the ability of investors to actively manage superannuation funds. It could be that an investor who have managed a SMSF

for many years simply have the desire to step back in order to free up time to enjoy other interests. Sadly, health issues (e.g. the development of cognitive disorders like Alzheimer's or dementia) may also seriously impair the ability of certain investors to take an active role in complex fund management decisions. In cases like these converting a

SMSF to a SAF could be a very sensible way of continuing to enjoy the benefits of participating in a 'DIY fund' without having to have their 'hands on the levers' all the time. This is because the professional trustee will be taking care of the day-to-day running of the fund.

Less restrictive 'related party' requirements

SMSFs operate under strict regulations about transactions (e.g. the buying and selling of fund assets) where related parties are involved.

Membership restrictions are also in place in this regard (e.g. fund members may not be in an employer-employee relationship). SAFs operate on the principle of arms-length management with a professional trustee taking ultimate responsibility for management and compliance.

One of the implications of this is that rules governing related parties are much less stringent.

Smoother transitions in the case of the death of a fund member

The death of a loved one is perhaps the one time when we would be least inclined to want to make investment and management decisions relating to super funds. Yet this is something that will be unavoidable for the surviving member of a two-member SMSF. Such a fund will have to be converted to a single member fund, which will entail the appointment of a corporate trustee, before death benefits can be paid. This issue can be avoided by converting to a SAF where an independent trustee will obviously already be in place.

Possible disadvantages of making use of SAFs

Choosing the SAF route is not a decision that should be taken lightly since there are certain aspects of this type of fund that could be perceived in a negative light by some investors. This will obviously be highly dependent on the profile and needs of individual investors.

Some possible negatives include:

Higher Costs

SAFs are actively managed by professional trustees. On the one hand this can provide investors with a great deal of peace of mind as the risk of non-compliance is removed from them personally. All of this work done by the professional trustee will, however, come at a cost. Investors will therefore have to factor higher management fees into their calculations when considering this option. It should also be noted that the statutory costs of these funds are higher.

Regulatory supervisory costs for SMSFs are currently \$180 p.a. while the fees for SAFs are \$550.

Less independence

One of the most appealing aspects for investors in SMSFs is the fact that they have active control of their retirement funds. They can, therefore, make investment decisions according to their own preferences and strategies.

With SAFs the ultimate authority to make decisions lies not with fund members but with the independent trustee. While most independent trustees would be willing to be guided by the wishes and desires of members they are not under an absolute requirement to do so. They can, in other words, overrule members. In some cases this might actually be a good thing as it may prevent members from executing unwise investment decisions.

For some current SMSF members this perceived loss of independence may, however, be a too high price to pay.

Setting up a SAF

Investors should seriously consider the setting up of a SAF in the following circumstances:

- Where any potential member is not eligible to be a trustee of a traditional SMSF (e.g. through being disqualified, being bankrupt etc.).
- Where it is envisaged that some, or all, fund members will be spending extended periods of time overseas.
- Where potential members are not comfortable shouldering the compliance related risks associated with SMSFs.
- Where members of an existing SMSF are unable (e.g. due to illness or lifestyle considerations) to continue acting as active trustees.

Once the decision to set up a SAF has been made, the following questions will have to be considered.

Is this a new fund or a conversion from a traditional SMSF?

It is possible to set up a SAF 'from scratch' and equally possible to convert a current SMSF to a SAF (and even to switch it back again). In such a case the current trustee(s) step back to be replaced by the professional trustee. When this happens ATO is notified that the fund is no longer a SMSF and APRA is notified that they have a new SAF to oversee.

It is obviously very important that the setting up of the SAF, or the conversion of a SMSF into a SAF is done correctly and it is therefore highly advisable that you get professional help to ensure that all the T's are crossed and i's dotted.

Who should act as the professional trustee?

The choice of who should act as the professional trustee is a very important one as this person or company will have the ultimate say about management decisions and will also be responsible for ensuring the continuing compliance of the fund.

One crucial fact to keep in mind is that only

individuals or entities that are officially licensed by APRA for this purpose may act as professional trustees for SAFs. One of your first questions to potential candidates should therefore be as to their eligibility to practice in this field.

Other considerations that should be taken into account during the selection process include:

Track record and professionalism

How much experience do potential providers have in this field? Can they provide a record of maintaining clean compliance records for all their clients?

Investment strategy and preferences As an investor you should obviously be comfortable with the way in which a trustee approaches investment decisions, otherwise you may see decisions being made that goes against your own instincts and preferences as an investor.

Cost

How much will the provider charge for providing this service? Rates can vary significantly and it should always be borne in mind that excessively high fees could have a negative impact on your retirement bottom line.

Ease of doing business: How approachable and responsive are the potential providers? This is perhaps best ascertained through getting feedback from those who have dealt with different providers in the past.

Setting up or transferring the Fund

Your financial advisor and/or professional trustee should be able to provide you with guidance on all the steps required to get the SAF up and running. In the case of a new fund things are obviously slightly more straightforward as you will be starting with a blank slate. Where a transfer is done the independent trustee will want to make sure that the SMSF is in total compliance with relevant legislation and regulations. If it is not, the independent trustee will insist on the fund being 'cleaned up' before accepting responsibility and facilitating the transfer.

Independent trustees may also recommend

a reconfiguration of the asset allocation in a SMSF before agreeing to take it on as a SAF. Once the process of setting up or transferring the fund is complete it should essentially 'hum along' without too much input being needed from the side of the investor since the independent trustee will take full responsibility for the management of the fund.

We cannot overemphasize how important it is to get professional advice and help as you embark on the journey of investing your retirement funds in a SAF. Our team stand ready to provide you with this help and advice!

Conclusion

It is our sincere hope that the information presented above set you thinking about some of the issues that you will have to pay attention to in planning your financial future.

It would be impossible, however, to present a complete guide to all your financial planning needs in a document as brief as this. We urge you to continue your explorations by making use of some of the other resources and eBooks available, we also stand ready to serve you with and professional advice, so please do not hesitate to contact us if we can be of further assistance.

Take the next step

We trust you enjoyed this publication and found it informative and professionally presented. Of course, your feedback is always welcome as we strive to continually offer content in a format that is relevant to you.

We now invite you to take the next step and meet with an adviser to discuss what it was you were hoping to achieve when you downloaded this handbook and to establish if we can help you achieve your goals and objectives.

Next you will find details on how to book an appointment with an adviser.

We look forward to meeting you soon.



Appointment booking request form

About the Adviser

Please complete the Appointment Booking Request below and scan and email to:

Appointments are available Monday-to-Friday.

Please nominate your preferred day, date and time to meet with us. One of our client services representatives will call you to confirm your appointment.

Our services

Preferred appointment day and time

Day

Date

Time am/pm

Contact details

If you would like us to contact you via email to confirm your appointment or to answer any questions you have, please provide a valid email address for our records.

Email

Your Details

Title

First name

Last name

Mobile



Reader Notes



Reader Notes



Reader Notes



Wealth Adviser

Wealth Adviser is a division of WT Financial Group Limited
Head Office: Level 5, 95 Pitt Street Sydney NSW 2000
Telephone: 02 9248 0422