

SMART MONEY

DIY: TIME TO GET ORGANISED

Running a successful self-managed super fund requires consistency and attention to detail. **John Wasiliev** explains what must be done and when.



Illustration: Suzanne White

Many people who start a do-it-yourself superannuation fund often do so for a single reason pertinent to their circumstances. They may want to invest in a property from which their business is run or some other asset class that piques their interest, such as shares or art.

Or they simply may want to run their own investments as they think they can do it better and cheaper than a big fund.

This approach often means they focus on their specific interest while a lot of other issues associated with successful DIY funds are overlooked.

There is so much more to running a DIY fund than most

people think, says Olivia Long, chief executive of fund administrator SuperGuardian, especially for those who are otherwise busy people.

Just keeping up to date with basic tax lodgements and annual return requirements can keep people occupied, a fact that many trustees who scramble to meet these obligations during February to May will acknowledge.

Even those who employ professionals to help them with various aspects of running their DIY super can find themselves challenged by tasks they are required to perform at strategic times of the year.

Running a DIY fund can be difficult because people tackle the task spasmodically rather than routinely, says Ron Lesh,

People can overlook routine issues that can then lead to problems.

Matthew Scholten

managing director of BGL Corporate Solutions, Australia's biggest provider of DIY super fund software. BGL claims its Simple Fund software is used by 75 per cent of the nation's 430,000-odd DIY funds as well as many accountants.

Following a routine is probably the most important aspect of having a successful DIY fund, says Lesh, with success measured in various ways: whether you have good administration, a disciplined approach to contributions and proactive investment management.

With this in mind, Smart Money this weekend publishes its first DIY super diary, a month-by-month guide to the important issues for 2011 that will require attention as the year progresses.

Running a DIY fund in a way that focuses on issues on either a monthly or quarterly basis is much better than occasional intense management.

The trouble with funds run in a haphazard fashion, says financial planner Matthew Scholten of Godfrey Pembroke in Melbourne, is that people can overlook routine issues that can then lead to problems or missed opportunities.

It is not uncommon for people who set up DIY funds for a particular reason to run out of ideas or, in a worst case scenario, do very little. Like anything that involves investing, says Scholten, the most successful arrangements are centred around planning.

Tod Fankhauser of DIY super administrator Heffron Consulting

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SMART MONEY

Your month-by-month DIY super guide

| JANUARY | FEBRUARY | MARCH | APRIL | MAY | JUNE |
|--|--|--|--|---|--|
| <ul style="list-style-type: none"> Review investment strategy. Determine desired return for 2010-11 financial year. Did fund meet target for 2009-10 – if not, portfolio may need revision Make sure planned concessional contributions are within annual caps – including employer and salary sacrificed contributions Evaluate system used to run a fund. Where do you get information and is it reliable? Could specialised software help? | <p>28 Annual return due for funds established in 2009-10 and also funds that prepare own returns</p> <p>28 Due date for December quarter tax instalment activity statements from funds with accumulation accounts</p>  | <ul style="list-style-type: none"> Start on 2009-10 annual compliance and tax if fund more than one year old - chase financial statements  | <ul style="list-style-type: none"> Review share portfolios after company reporting season Check entitlement to age pension or Commonwealth Seniors healthcare card If close to 65, use entitlement to bring forward three years of after tax contributions into a \$450,000 sum. <p>28 Due date for March quarter tax instalment activity statements from funds with accumulation accounts</p>  | <ul style="list-style-type: none"> Consider benefits of a transition to retirement pension. Check tax status of investments that will pay the pension so right ones remain in accumulation phase Check contributions maximised without exceeding annual caps. If you turn 50 during year, you can make a concessional contribution of \$50,000 instead of \$25,000. Check if low income earner entitled to government co-contribution. <p>15 Due date for returns submitted through tax agents</p> <p>15 Tax for previous year due</p> | <ul style="list-style-type: none"> If fund is paying pension, check minimum income paid. For transition to retirement pensions, check 10 per cent drawdown limit is not exceeded Make late contributions by June 25 so money received and recorded by June 30 Make a record of all investments at June 30. Chase brokers or fund managers if necessary Get unlisted investments such as property valued Check inhouse assets are less than 5 per cent of total assets Check if can split contributions with a spouse. Contributions in 2009-10 can be split before June 30 |

TIME TO GET ORGANISED



Olivia Long.
Photo David Mariuz

From previous page points to considerations that arise for members at certain ages.

For example, turning 50 during this financial year has some extra value over following years. Until June 30, 2012, a 50-year-old can make tax concessional contributions of \$50,000 regardless of their account balance.

After that the government proposes to limit them to \$25,000 if they have savings in excess of \$500,000.

The important thing is to be 50 before June 30 next year. Even if you are 50 on June 29 you will be able to contribute \$50,000 compared with \$25,000 for an under-50-year-old.

A disciplined approach to making contributions, says Fankhauser, includes making sure you don't exceed the contribution limits given the severe penalties that can arise if this happens. Being aware of the circumstances and times when contribution mistakes are more likely is essential.

As an example, making sizeable last-minute contributions is common among DIY funds. The timing of contributions around June 30 is always critical because a difference of a few days can mean that a contribution intended for 2010-11 can be treated as occurring in 2011-12, with potential consequences for contribution limits and tax deductions.

The best strategy to avoid mistakes with late contributions is to give yourself a good week before the end of June. The best evidence of a successful contribution is having a date before June 30 shown on a bank statement.

When checking you haven't exceeded your contribution limits it is important to make sure you have included anything that might be treated as a contribution. For example, if your business paid some of your fund expenses and this wasn't reimbursed it will be treated as a contribution. The same goes for insurance premiums paid by your business

where the policy is owned by the super fund.

Age milestones are very relevant when it comes to taking pension benefits, like age 55, when you can start a taxable transition to retirement pension, and 60, when such a pension becomes income tax free.

One of the great benefits of starting superannuation pensions, says Fankhauser, is the tax exemption provided to some or all of the fund's investment income as a result.

This exemption is only allowable in cases where the minimum required pension has actually

tax obligations and member records should be able to do such important tasks as prepare and lodge quarterly tax instalment statements, keep on top of contribution limits and calculate minimum pension payment obligations.

Getting all of these right can address many of the problems that DIY funds encounter.

An important aspect of DIY super, says SuperGuardian's Olivia Long is that it's never too late to improve the way you run your fund.

The start of a new year is a great time to review the fund's

Make sure you have an up-to-date strategy that reflects the fund's investments.

been paid. Therefore in order to be entitled to claim the exemption it is vital to check before June 30 that the minimum has been paid.

A good administration system can make life so much easier for a DIY fund, says Tina Wilson, a technical expert with Dixon Advisory & Superannuation Services. A fund that is up to date with its investment information,

investments and assess past and future expected performance.

A routine approach to DIY fund investment management can be very helpful in determining not only how investments are performing, says Ron Lesh, but also whether a fund is holding too much cash and missing investment opportunities.

Whether the fund is getting the

Make those payments

Annual drawdowns for super pensions

| Age | Minimum per cent withdrawal for 2008-09 and 2009-10 | Standard minimum per cent withdrawal | A minimum amount is required to be paid each year. Minimum payment amounts have been halved for the last three years but government has yet to indicate if this policy will continue. |
|------------|---|--------------------------------------|---|
| Under 65 | 2.00% | 4.00% | The reduction in the minimum applies only to account-based annuities and pensions, allocated annuities and pensions, and market-linked annuities and pensions. |
| 65-74 | 2.50% | 5.00% | |
| 75-79 | 3.00% | 6.00% | |
| 80-84 | 3.50% | 7.00% | |
| 85-89 | 4.50% | 9.00% | |
| 90-94 | 5.50% | 11.00% | |
| 95 or more | 7.00% | 14.00% | |

SMART MONEY

| JULY | AUGUST | SEPTEMBER | OCTOBER | NOVEMBER | DECEMBER |
|---|---|---|---|--|--|
| <ul style="list-style-type: none"> Review concessional contributions to ensure within annual caps. If you have triggered bring forward rule for after-tax contributions, adjust future payments Start gathering information for 2010/11 return Adjust pension drawdowns to meet minimum payment requirements. Review transition to retirement pensions to check if worth combining contributions from past year with pension <p>14 Due date for PAYG summaries for members under 60</p> <p>28 Due date for December quarter tax instalment activity statements from funds with accumulation accounts</p> | <ul style="list-style-type: none"> Self employed who claim tax deduction for personal contributions should prepare Section 290-170 notice If fund entitled to a tax refund get paperwork to accountant or administrator <p>14 Due date for PAYG payment summary (must be sent to ATO) from funds paying pension or lump sums to under 60s</p> | <ul style="list-style-type: none"> Review share portfolio following company reporting season | <p>28 Due date for June quarter tax instalment activity statements from funds with accumulation accounts</p> <p>31 Due date for late income tax returns for prior years</p> | <ul style="list-style-type: none"> Check risk profile – or capacity to weather volatile returns from assets such as shares and property. Adjust investments if necessary Calculate years to retirement and if savings are sufficient | <ul style="list-style-type: none"> Check for buying opportunities in sharemarkets Catch up on reading. Check changes to super rules. Analyse investments tipped to perform in first half of 2012 |




Photo: Louise Kozminsky

SOURCE: AFR RESEARCH

Do it right first time

best returns for its cash is another possible potential issue. Lesh says these issues only become obvious when trustees learn that they need to routinely check their funds.

To help trustees, Lesh promotes the value of having some form of computerised system which can help with investments and the preparation of reports.

While the majority of funds that use the BGL system are accountants, Lesh says there are about 1200 who use Simple Super to actively run their funds. It helps them monitor their investments, be on top of their fund balances, and know exactly where they stand when they are drawing pensions.

The Simple Super program costs about \$650 to buy which includes training support. Keeping the software up to date costs an annual \$407.

Lesh says that one trend is a growing number of accountants who are giving their computer capable clients a copy of Simple Super which they use to help run their funds. Clients enter the data and save money by only using their accountant for high end work like finalising the annual return and doing the fund audit.

John Mellroy, chief executive of DIY super administrator Multiport, says many funds get around the administration issues by giving the job to a professional administrator. But they still have to make sure the administrator gets all the necessary information to prepare annual returns so some sort of routine can still be very useful. It's still possible to be late if you don't pay attention to the detail, he says.

For funds wishing to manage their investments more efficiently, one issue often overlooked is running their fund according to an investment strategy. This is expected by the regulator but many funds have either no strategy or are running their fund with a strategy totally different to their portfolio.

Making sure you have an up-to-date strategy that reflects the fund's investments should be an annual task that trustees perform.

New DIY fund regulations mean trustees have to be even more rigorous, John Wasiliev writes.

It used to be that all do-it-yourself superannuation funds were treated the same when it came to reporting obligations. But in mid-2007, funds in their first year or so of operation had special obligations put on them.

New DIY funds that use a tax agent's services – the majority – must lodge annual returns for the 2009-10 year by the end of February, nearly three months before the mid-May deadline for other funds lodging with agents.

The early deadline for new funds, says DIY fund auditor Craig Fishburn, of Fishburn Consulting in Sydney, requires proper preparation for various reasons.

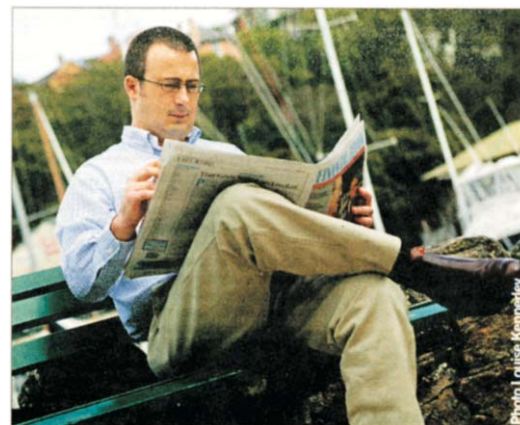
The major one is the fact that if the fund is found during its first audit to have breached the rules, the auditor has no option but to report it to the DIY fund regulator, the Australian Taxation Office.

This will attract a response from the ATO that will need to be dealt with. Responding will cost the fund time, and even money, if professional advice is needed.

New DIY funds are those established within 15 months of a financial year. For the 2009-10 year, this means funds set up since April 1, 2009. On ATO fund statistics, about 34,000 new funds were set up during this period.

Funds in their first year are targeted because the ATO wants to catch problems early to correct them before they become entrenched, Fishburn says. It wants auditors to review them closely and identify any problems.

It wants to deal with such issues as funds that set an investment strategy and then promptly forget it and end up with a portfolio that reflects a different strategy. This is not uncommon: quite often new funds are set up with a strategy and then not much happens in the first year as people get used to the idea of having a DIY fund. It means that, before a new fund



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Craig Fishburn,
Fishburn Consulting

sends its accounts to be audited, the trustees must make sure the investment portfolio reflects the written investment strategy.

Even if it is only slightly out of whack, Fishburn says, the auditor has no choice but to report it, as reporting rules require a fund to be close to perfect in its first year.

But if they have it all correct before the audit this won't have to happen. What trustees must do is compare their portfolio with their strategy and, if it differs, adjust the strategy and ratify it before submitting the fund to be audited.

Other matters that new funds must review are listed in the trustee declaration each fund must have in its records.

Since mid-2007 all new DIY fund trustees have had to prepare a trustee declaration as one of their first duties, within 21 days of setting up or joining a fund. This is intended to ensure that trustees cannot claim they weren't aware of their responsibilities. The declaration must be kept with the fund records for at least 10 years.

The declaration contains key information on general trustee duties, investment restrictions and the sole purpose test, as well as record-keeping, reporting and lodgment obligations.

GET A GRIP ON CONTRIBUTION CAPS

Tax concessional contributions include employer contributions (including contributions made under a salary sacrifice arrangement) and personal contributions claimed as a tax deduction by a self-employed person.

The contribution limit for financial 2010-11 is \$25,000 for people under 50. Those over 50 can contribute \$50,000 applying until June 30, 2012.

The government has announced changes that, if passed by Parliament, will increase the concessional contributions cap to \$50,000 for individuals who have total super below \$500,000 and are 50 or over. If you have more than one fund, all concessional contributions made to all your funds are added together and count towards the cap.

Non-concessional contributions include personal contributions for which no income tax deduction has been claimed. The 2010-11 limit is \$150,000 with people under 65 years able to make contributions up to three times their annual cap – or \$450,000 – over a three-year period. This is known as the bring-forward option.

