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SuperGuardian in the Press

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Portfolio

Members opt for the simple life

DIY super

John Wasiliev

The latest analysis by the tax man has found that for every nine DIY super funds that are being established, one is being wound up. While the closure of 200 self-managed super funds a month may not seem like a lot compared with the 300,000 such retirement funds run by Australians, it is worth looking at the reasons behind the trend.

Accountant Phil Jaquillard, of Adelaide-based DIY fund administrator SuperGuardian, believes many are simply realising DIY super is not for them.

"There are people who are acknowledging they made a mistake going into DIY super, given the responsibility, paperwork and complexity involved," he says. "Some feel they were talked into [setting up a] DIY super by an adviser without realising what was involved. They are now quitting because they want a simpler life where someone else is managing their superannuation for them."

Other reasons for fund closures, argues Jaquillard, are marriage break-ups, fund members moving overseas, or the death or serious illness of a key member. The latter is the most common reason funds are wound up in the drawdown stage.

"Where the member who was driving force looking after the DIY fund dies or becomes seriously ill, a partner who wasn't as involved may choose a simpler solution," Jaquillard says. Others may wind up the fund in order to clear debts.

Jaquillard says in his experience few funds are being wound up because members are low on money, largely because most DIY funds that are paying benefits have started doing so only relatively recently

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There are a number of ways in which members can wind up funds and the regulatory issues sometimes can complicate the exercise.

The fund trustees can convert their fund to a small APRA fund, where the trustee duties are handled by an approved commercial trustee. Otherwise, a growing band of DIY fund administrators are offering their services.

Jaquillard says there is a five-stage process:

Stage 1: Check the fund's trust deed. What does it say about winding up a fund? It is important to ensure all decisions are documented and it's a good idea to draw up a timetable. Where a fund is being wound up upon a member's death, a legal personal representative of the late member can act for him or her. Check whether there is a death benefit nomination that lets a pension be transferred to someone else. A death benefit must be paid out within six months of the death or three months from the date probate is granted, whichever is later.

Stage 2: Where the fund is being wound up in the savings phase, the net balances – after expenses and taxes – will either need to be rolled over to another fund or paid out as a lump sum. Minutes that note a decision to wind up the fund and sell the assets must be put on the record. If you use a financial planner, it is sensible to have a letter of instruction, supported by the minutes.

Stage 3: Before the winding up begins, the Tax Office must be notified of a decision to wind up a fund. Where a fund is in the pension phase, no income tax will apply. There may even be an entitlement to a refund of dividend imputation tax credits.

Stage 4: Before benefits are paid out to beneficiaries, allowances will need to be made for adviser, accountant and audit fees. All administration and other costs associated with the wind-up must be dealt with before member benefits are paid out. It is possible benefits may be paid in specie (in their existing form), if appropriate, or rolled to another fund where this is the choice.

Stage 5: Where a fund is wound up and final documents – such as the relevant fund minutes and final income tax outcome – are prepared and signed by the trustees, these must be lodged. The last step is closing the fund bank account.