Managing your own fund

By REBECCA THURLOW

UNSATISFIED with the returns on their money in a managed superannuation fund, two years ago Carmel and Brian Green started their own fund.

With $120,000 and the help of their accountant they invested mostly in the sharemarket.

Carmel, 52, was wary of shares so she and Brian, 55, bought into companies she had dealt with and trusted – ANZ, Advance Bank and Woolworths.

Since then their investment has made a capital gain of up to 19 per cent and is yielding 6.8 pc annually.

The fund is managed by their son, Gary, 29.

Previously Gary had withdrawn his money from a leading superannuation scheme to find it had made a negative return in three years. He decided to manage his parents' superannuation.

"It provides us with diversification and control over our funds," Gary said. "We can invest in the sectors we believe will perform well.

"In the beginning I was worried about managing the fund myself because I had heard many horror stories about how difficult it can be and about how complex the laws are.

"But I have assistance from a company called Peak Financial Services who keep the fund on track by monitoring compliance, legal requirements and taxation.

"It started paying for itself in less than a year. Within 10 years we expect the capital in the fund to double."

DOING IN THEIR WAY: Gary, Carmel, Carmenita and Brian Green in the family business at Marrickville.

Gary said the secret to success was diversification and patience.

"If you aim for a good return in 10 years it is a safe bet you will get it."

Next month, Gary and his 28-year-old sister, Carmenita, intend to join the family fund.

Do-it-yourself superannuation funds are increasing in popularity. Insurance Superannuation Commission figures show that in December last year 100,000 small funds were being run by an average of two people.

With a DIY fund your investment strategy can be designed to fit your individual risk profile and your non-super assets.

Cost savings can apply for larger accumulated amounts and assets can be transferred to you on retirement as part of your payout.

But managing a DIY fund is not for the faint hearted.

"People who embark on their own super funds are usually highly networked, business minded and smart enough to run their own money. And they usually have at least $100,000 to invest," said the commission's Alex Dunnin.

"Calculate for conservative returns in all areas – expect no more than 2-3pc inflation," said Thomas Graham, accountant network manager of GIO Australia.

"As soon as you begin to consider investing in a DIY fund, talk to an accountant with experience in the area. You must have someone to oversee your investment and make sure all administration, accounting and legislation requirements are met," he said.

The overriding legal requirement is that the sole purpose of your fund is to provide retirement benefits to its members.

The fund must not buy assets from members. Exceptions include listed securities and property used as business premises, as long as these investments do not exceed 40pc of the fund's assets.

There are heavy penalties for mismanagement of a fund. Earnings from a fund that loses special tax status for non-compliance are taxed at the penalty rate of 48.5pc rather than at a maximum of 15pc.

Setting up a fund requires the appointment of a trustee (usually a fund member), drafting of a trust deed and the implementation of a formal investment strategy.

Mr Graham advised people to consult a solicitor while drawing up the trust deed.

"It spells out how the trust will be applied, who will benefit and how it will be split up if a couple involved separate or someone dies," he said.

Ongoing requirements of the trustee include reporting to members, preparing financial statements and lodging annual Insurance and Securities Commission returns.

Depending on the size of the fund, it can be more expensive to maintain than a managed fund.

Do-it-yourself funds incur annual costs from $1,200.