

Self Managed Super Funds

The benefits of self managed super funds are evident by the rapid growth recorded from 17% of total super funds in June 2002 to over 30% in June 2008. This article explains why and the benefits of using such an investment vehicle.

The fastest growing sector in the superannuation industry is that of self-managed superannuation funds (SMSFs). Although membership is limited to a maximum of four, quarterly data produced by the Australian Tax Office (ATO) as at December 2008 shows almost 770,000 Australians hold their superannuation in approximately 400,000 SMSFs.

So, what's so super about SMSFs? Below are some key advantages that can make them an attractive choice as part of your retirement strategy:

- **Cost savings.** SMSF fees are usually fixed whereas retail super funds are charged as a percentage of the account balance so for accounts over for example, \$250,000, it can be more cost effective to establish an SMSF than to use a retail superannuation structure offered by a fund manager.
- **Control.** With SMSFs, all the members of the fund are also trustees and are therefore responsible for all decisions. They are also required to manage the fund in accordance with relevant superannuation laws.

- **Flexibility.** Trustees can seek assistance of administrators, accountants and financial planners in maintaining their legal responsibilities in the running their fund or they can do it all themselves.

- **Investment choice.** A much wider range of investments is available to trustees than may otherwise be typically offered by fund managers. This allows maximum flexibility in investment selection, especially for geared investments and non-traditional assets like artwork, bullion and certain types of landholdings.

- **Direct property.** An SMSF can invest in direct property, whereas retail funds usually cannot. In addition, a business property owned outside superannuation can be transferred into an SMSF. For some self-employed people, having their SMSF own their business premises can make a lot of financial sense.

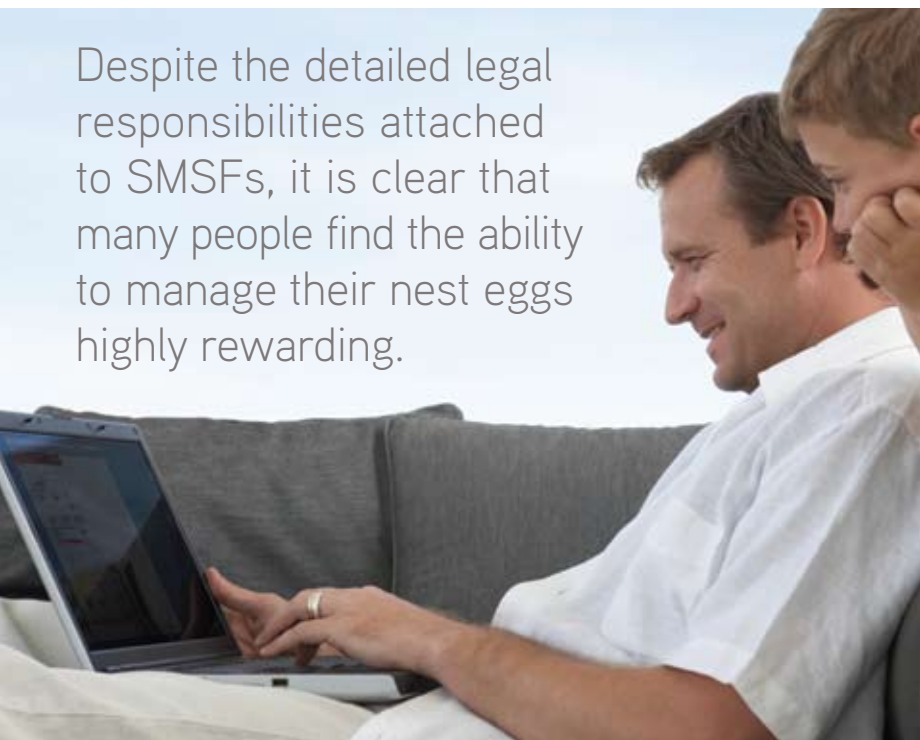
- **Taxation.** SMSFs can allow trustees to take a more tailored approach to managing taxation, especially when it comes to capital gains tax.

- **Insurance.** SMSFs can hold life, temporary disability and permanent disability insurance on their members. This can be a tax-effective way of managing both the cost of the insurance and any future insurance payouts.

- **Estate planning.** The trust deed for an SMSF may allow for binding death benefit nominations. A Will can be challenged in court, but under a properly executed binding death benefit nomination trustees must pay a death benefit as directed. This provides greater certainty in the distribution of assets.

Despite the detailed legal responsibilities attached to SMSFs, it is clear that many people find the ability to manage their nest eggs highly rewarding. Although there are many things to consider when converting your super funds to an SMSF, the added choices, flexibility and cost effectiveness may far outweigh the additional time taken for administrative purposes. Please contact your Modoras Planner if you would like more information about these highly regarded options and find out if a SMSF might benefit you.

Despite the detailed legal responsibilities attached to SMSFs, it is clear that many people find the ability to manage their nest eggs highly rewarding.



Trauma insurance fills the gaps

According to the Australian Bureau of Statistics, 30% of registered deaths in the year 2007 were caused by cancer and 34% were caused by cardiovascular disease. Prostate cancer is the most common cancer in men, with 32 men being diagnosed with it each day. Breast cancer is the most common cancer in women (other than skin cancer), with more than 11,700 cases diagnosed each year. It is an even more unfathomable proportion of people who are underinsured or have no insurance to cover for the expenses incurred by such conditions. The grief experienced by family for loved ones suffering is often compounded by the costs associated with treatments rendering some to even sell the family home to pay for extra time.

If you were one of these statistics, what value would you place on having access to the best available treatment to help you in beating the disease?

Think about how important it would be to take as much time off work as you needed to recover.

Trauma insurance provides a lump sum payment in the event that you are diagnosed with, or suffer one of a range of traumatic conditions such as cancer, heart attack and stroke.

Medical advances have meant that our chances of surviving traumatic events are much better than they were. However, the cost of treatment can sometimes be beyond your normal means. Without trauma cover, you may need to dip into your children's education fund or your retirement savings, or you might even have to increase your mortgage to pay for expensive treatment.

Importantly, a trauma payment is not dependent on you being unfit to work (unlike income protection). The diagnosis of a traumatic condition might mean that you physically could go to work, but would prefer to spend time with your family and reduce any work-related stress while you recover and consider your future. Trauma insurance can provide the financial support to allow this flexibility with your work arrangements.

Never say it will never happen. The types of events that trauma insurance covers are often unforeseeable and the statistics speak for themselves. There are significant variations between policies in features such as the number and types of events covered, premium options and ancillary benefits payable. Contact your Modoras Planner to an appropriate policy for you.

Sources:

Australian Bureau of Statistics www.abs.gov.au
Prostate Cancer Foundation of Australia: Related Statistics, 2008
National Breast Cancer Foundation: FAQ's, 2009

A reflection on interest rates

In most developed countries, the official interest rate sets a benchmark from which mortgage, credit card and other loan rates are based. If interest rates are "low", individuals, businesses and governments will borrow to invest or increase consumption. We buy more DVDs, cars and property whilst companies expand production and governments build more infrastructure. If rates increase, we put off buying and investing and the economy slows down.

Raising or lowering rates is always likely to be controversial because the decision will be based on imperfect data. It takes time for statistics to emerge and show what the economy is doing, and often there are flaws in the data or the figures conflict with each other.

Using interest rates as an economic tool is not an exact science. Cutting rates too quickly could trigger a recession and moving too slowly could allow inflation to get out of control.

In theory there should be a "neutral" interest rate that will keep the economy ticking along nicely. The Reserve Bank says this is between 5.5% and 6.5%.

The problem with growing too fast is that demand outstrips supply and prices start to rise. Signs of this include a shortage of skilled workers, higher prices for raw materials and infrastructure bottlenecks. These problems cannot be solved overnight so the "solution" is to slow the economy to reduce demand.

How well the strategy works depends on the response of individuals, businesses and governments. The economy, after all, is the result of the decisions we all make. A household with high levels of debt may tighten their belt. Alternatively, if each person holds a secure job and still feels confident, they may not change their spending patterns at all.

A business may decide to defer expansion plans not just because credit is now more expensive, rather they see lower demand for their products. Another strategy could be to proceed with expansion plans and try to steal a march on their competitors.

It all depends on how we personally react to the words and actions of the Reserve Bank.

PRIVACY POLICY: You are in receipt of this publication because you are a client of Modoras Pty Ltd, or you or someone you know may have requested you to be included on the publication's distribution list. If you no longer wish to receive this publication please let us know via mail to PO Box 6530 Upper Mt Gravatt Queensland 4122, or via telephone to (07) 3219 2555, or alternatively via email to info@modoras.com

IMPORTANT INFORMATION: The information and opinions contained in Inner Facets are of a general nature only and do not take into account the investment objectives, financial situation or particular needs of individual investors and does not constitute specific or personal advice. Any individual making an investment decision should make their own assessment taking into account their own particular circumstances. The information and opinions herein do not constitute any recommendation to purchase, sell or hold any particular investment. Modoras Pty Ltd recommends that no financial product or financial service be acquired or disposed of or financial strategy adopted without you first obtaining professional personal financial advice suitable and appropriate to your own personal needs, objectives, goals and circumstances. Please note that past performance is not necessarily indicative of future performance. Investment markets are volatile and time sensitive. Information, forecasts and opinions contained in Inner Facets can change without notice. Modoras Pty, Ltd. does not guarantee the accuracy of the information at any particular time. Although care has been exercised in compiling the information contained within Inner Facets, Modoras Pty, Ltd. does not warrant that the articles within are free from errors, inaccuracies or omissions. To the extent permissible by law, neither Modoras Pty, Ltd. nor its employees, representatives or agents (including affiliated companies) accept liability for loss or damages incurred as a result of a person acting in reliance of this publication. Inner Facets © Modoras Pty, Ltd. ALL RIGHTS RESERVED. Inner Facets has been prepared by Modoras Pty, Ltd. ABN 86 068 034 908. Modoras Pty, Ltd. is a holder of an Australian Financial Services Licence (Number 233209) issued by the Australian Securities and Investment Commission.