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Super confused about superannuation structures?

By Perpetual Private Insights
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With a number of super structures available to you, it is crucial to select the one that best matches your current circumstances and your longer-term retirement goals. In this article Elysse Lorenti, Senior Financial Adviser, Perpetual Private and Catherine Chivers, Senior Manager Strategic Advice, Perpetual Private explore the different types of super structures available and the 5 key factors to consider when choosing the right super structure to build your retirement nest egg.

Still a super place for your retirement savings

Despite the recent market volatility created by the COVID-19 pandemic, it's worth remembering that in the face of these unprecedented times, the super system is still an effective way to save for retirement.

Here's a few key reasons why:

1. All investment earnings from super are taxed at a maximum rate of 15 cents in the dollar. Outside the super system, your earnings can be taxed as high as 47 cents in the dollar (including Medicare levy). So, the question is - for every dollar you earn, would you prefer having 85 cents or as little as 53 cents working for you as an investment?

2. The benefits of super extend beyond the low tax rate on investment earnings. Under current law, you'll pay no tax on the money you take out; either as a lump sum or an income stream, after the age of 60.

3. There's tremendous flexibility in the form of superannuation structures that can best suit your needs and circumstances. This is where tailored financial advice can prove very helpful, there's a few options to choose from!

Navigating the superannuation maze

When it comes to your super, some options have greater responsibilities than others, and therefore involve a more 'hands-on' management style by a fund member. However, if a more 'hands-off' preference is held, then that can be catered for too. It all gets down to what's the right choice for you.

This may be beginning to sound complicated, but working alongside a financial adviser, you can navigate the maze to arrive at an end destination you are most at ease with. There are five main elements that need to be considered along the way.

Five fundamental factors to consider when choosing a super structure

1. Investment management possibilities
2. Ability to tailor to specific needs
3. Having the degree of control that best suits your preferences
4. Estate planning and insurance
5. Fees and management

As super structures differ, care should be taken when examining each option in light of your current circumstances and plans for the future. Here are the three main forms of super with a brief summary of their characteristics.

1. Industry super fund: A pooled superannuation product that combines your superannuation monies with other members. Your balance is represented by the number of units you hold in the fund. There is a Professional Corporate Trustee who is responsible for running every aspect of the fund. Often your first experience with superannuation. It is simple, low touch and low cost.

2. Super wrap: An individual superannuation product in your sole name that allows you to build your own bespoke investment portfolio centred around a cash hub. There is a Professional Corporate Trustee who is responsible for the running and compliance of the fund. It allows for more control, flexibility and

transparency over the investments and strategy for your superannuation without the hassle of managing the administration and compliance aspects.

3. SMSF: A private structure that you manage yourself with the assistance of an accountant. The Trustees choose their own bespoke investment portfolio and strategy. As Trustee of the fund, you are responsible/liable for running every aspect of the fund. It allows for total control and access to the wide investment universe including purchasing direct property and business real assets with your superannuation monies. Onerous compliance and administration requirements require technical expertise.

The super scorecard – how your options compare

The three super options are contrasted below according to the five key factors to consider when examining which super structure may be most appropriate for your needs.

	INDUSTRY SUPER FUND	SUPER WRAP	SMSF
INVESTMENT MANAGEMENT	✓ May provide ethical investment options × Limited investment choice. Generally pre-mixed strategies such as a 'Balanced' investment option × Less transparency and control over investments and transactions × Limited information on asset allocation and underlying investment holdings × Actions of other fund members may impact your investment value due to pooling of assets and mechanics of the unit price	✓ Ability to build a bespoke investment portfolio with wide access to investments ✓ Transparency and control over investments and transactions ✓ Ability to apply ethical investment overlays ✓ Access to wholesale managed funds × Unable to pool your member balance with another person for investment purposes	✓ Ability to build a bespoke investment portfolio with wide access to investments ✓ Transparency and control over investments and transactions ✓ Ability to apply ethical investment overlays ✓ Allows the pooling of member balances for investment purposes × Harder to access wholesale managed funds
FEES AND MANAGEMENT	✓ Simple to establish and low ongoing costs ✓ Statements provide performance and transaction information	✓ Cash account to maintain a cash reserve and manage transactions	✓ Cash account to maintain a cash reserve and manage transactions

	✓ May provide online access × Reactive service and support. You must navigate the website or speak with call centre staff if you need assistance	✓ Consolidated reporting, which provides ease of administration ✓ Online access to your portfolio × Can be more expensive	× Set up and running costs can be high × Time consuming administration
ABILITY TO TAILOR TO SPECIFIC NEEDS	× Harder to efficiently manage and implement retirement and tax planning strategies	✓ Flexibility to implement a wide range of strategies × Unable to borrow or purchase business real property or an investment property	✓ Flexibility to implement a wide range of strategies ✓ Purchase business real property or an investment property using your superannuation with ability to borrow to fund the purchase
REGULATORY REQUIREMENTS	✓ You are not responsible for the compliance and Trustee responsibilities of the fund	✓ You are not responsible for the compliance and Trustee responsibilities of the fund	× Trustee responsibilities are complex and require technical expertise to avoid costly mistakes. × Onerous compliance obligations
ESTATE PLANNING AND INSURANCE	✓ Access to low cost insurance × Group insurance offered can be limited and low quality	✓ Flexibility of comprehensive individual insurance	✓ Flexibility of comprehensive individual insurance × Estate planning complexity (when members/ trustees pass away or lose capacity)

Consider the broader implications of your choice

Decisions about your super structures can have broader tax and estate planning outcomes. To help you cover all the bases, it is important to consider financial, tax and legal advice as part of an integrated approach. Your Perpetual adviser, acting as your primary point of contact, can co-ordinate this process for you to give you peace of mind without the headache of having to manage multiple advisers yourself.